



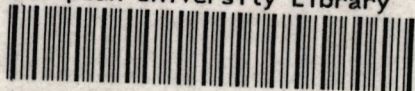
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**East-West Relations in Change – Some Implications
of the Western Aid Regime for the Political Economy
and Ecology in Poland and Bulgaria 1989-1992**

**BERND BAUMGARTL
and
ANDREAS STADLER**

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**BERND BAUMGARTL
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ANDREAS STADLER**

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Contents

I. Introduction	7
II. Theoretical Foundations	9
1. Environmentalism	9
2. A Liberal View of Integration	14
3. A Critical View of Dependence	18
4. Summary and Discussion of Assumptions	22
III. The Western Aid Policy and its Regimes: EC, IMF, World Bank, EBRD and Governments (G-24)	23
1. Political Support	24
2. The Europe Agreements	27
3. Aid Regime and Conditionality	30
4. Environmental Aid	37
IV. Eastern Response and Internal Change	46
1. The Polish Transformation 1989-1991	47
2. The Bulgarian Transition and Specific Environmental Problems	52
V. Conclusion and Some Ideas for Policy Implications	56
VI. Tables	59
VII. Bibliography	60

East-West Relations in Change – Some Implications of the Western Aid Regime for the Political Economy and Ecology in Poland and Bulgaria 1989-1992*

BERND BAUMGARTL
ANDREAS STADLER

I. Introduction

For more than four decades East-West relations were described in terms of antagonism and ideological confrontation. This came to an end in early 1989, when the leaders of the Trade Union Solidarity and Polish United Workers' Party negotiated the conditions for the ending of communism at the Round Table in Warsaw. Since then, all Eastern-Central European countries (ECE)¹ have embarked, one after the other, on radical transformation programmes from centrally planned to market economies and from a communist to a democratic polity. These policies have been actively encouraged, supported, and even demanded by the highly developed industrial countries in the West and in particular by their international institutions such as the International Monetary Fund (IMF), the World Bank (WB), the European Bank for Reconstruction and Development (EBRD), as well as by the European Community (EC) in its position as the coordinating body of the G-24 Aid Programme and its own PHARE

* This paper benefitted from criticisms and remarks from Günther Bachmann, Stefano Guzzini, Susan Strange and Alexander Surdej. The help of the EUI's language correction service was crucial. The research was completed in December 1992. Further comments are welcome and should be sent to the following address: Bernd Baumgartl/Andreas Stadler, European University Institute, CPN 2330, I-50100 Firenze. Fax: (39)(55) 4685 330; e-mail: Baumgart@bf.iue.it.

¹ We are in particular talking about Poland and Bulgaria; some observations will also be made regarding CSFR, Hungary, Romania, and the states in the former Yugoslav territory, but we will exclude all the former Soviet Republics from our analysis.

Programme.² As a consequence, East-West relations have undergone a profound transformation.

“Where is the East going?” asked a speaker at a symposium of East European intellectuals organised by the French press. He immediately answered the question himself: “The East wants to go towards the West, but finds itself in the South”.³ Indeed, certain new aspects of East-West relations remind us of the old features of North-South relations: aid dependence and the power of the North to shape internal changes in the dependent countries.

On the other hand, with a new quality of East-West relations, with growing cooperation between the two societies and with common efforts, Eastern and Western Europe might draw closer to each other in the 1990s, and form one common economic, cultural and maybe also political entity at some point after the year 2000.

In order to shed some light on the current state of East-West relations, this paper will analyse some of its specific structures and actors, and in addition will investigate the policy processes involved in the economic, political and ecological reconstruction of Poland and Bulgaria. The aim is to relate Western policies (chapter III) to Eastern changes (chapter IV). The guiding questions focus on the effects and the quality of Western support. We use three approaches in our analysis. First, we present an ‘ecological view’⁴ of the recent developments between Eastern and Western Europe (chapter II). Second, by making the basis of integration theories explicit, we try to assess if East-West relations can indeed be described in terms of integration. Third, we take a critical view and analyse the basis of a modernised *dependence* approach and its relevance. After this theory-guided process-analysis we try to come up with proposals for process-improvement (chapter V).

² The acronym stems from the French title of the first EC programme for Eastern Europe: “Pologne et Hongrie: Assistance pour la Reconstruction Economique”; by now all Eastern European countries benefit from this arrangement.

³ “L’Est guarda ai paesi ricchi ma fa i conti col sottosviluppo”, *La Repubblica*, 23 April 1992.

⁴ The terms ecological and environmental will be used interchangeably, following the German practice of using both expressions (*ökologisch*, *Umwelt*); Slavonic languages prefer *ekologičesko*, but in official documents, names, etc. also *okolna sreda*, *okružajuscaja sreda* is found. However, in English, German, French and Italian the word used in the context of policy and political analysis is: environmental, Umwelt-, environnemental, ambientale. Ecological refers more directly to nature and biology. See also the discussion in practical philosophy on ecological and environmental ethics (Bartolomei 1989).

II. Theoretical Foundations

1. Environmentalism

Environmental problems had and still have a significant role in the East European transition. The first protest groups in Hungary, GDR, Slovakia, Slovenia and especially in Bulgaria mobilised around the environmental issue.⁵ Moreover, the establishment of a new economic system, and the shift to new property relations during the privatisation process are highly dependent on ecological conditions. Liability for existing environmental damage and the costs of environmental clean-up influence the cost-benefit considerations of potential (both foreign and domestic) investors. Social and political implications consist of a declining quality of life and an insistence of the population to see some quick positive results from the new system.

Although Western countries have included environmental parameters earlier in their legislative framework, the main reason for the failure of environmental protection in the West and the East was in fact the lack of implementation. In the East, the contradictory tasks of maximising production in order to comply with central planning on the one hand and of reaching ecological goals on the other hand made even existing regulation a second rate concern.

Determinants for East-West Relations?

The transnational character of environmental problems is not only evident when transboundary pollution is at stake. The relations with Western countries and the introduction of a Western-type production system introduce a new set of dangers for a sound environment. Economic decisions especially, whether intentionally or not, have serious environmental consequences.

The principles of capitalist and free market conditions are being introduced in Eastern Europe without the mediating influence of adequately developed state regulation and without effective pressure from the population through non-governmental organisations (NGOs).

It is precisely state regulation which is the most decisive factor for environmental awareness in the West – and it is likely to increase (Smith, 1992, p. 8). As far as the environment is concerned, there is a strong contradiction between neo-liberal *laissez-faire* in the East and growing state intervention in the West. The Fifth Action Programme of the European

⁵ For a summary see Lauber (1992); for Bulgaria, see Baumgartl (forthcoming 1993).

Community, for example, calls for the integration of environmental considerations in all other policy areas (CEC, 1992). Reduction of the state's role is a conceivable reaction in states which see their environmental problems as mainly due to a centrally planned economic system – but it is also promoted by Western assistance. In the case of radical reform programmes, the danger exists of throwing the baby out with the bath water, particularly when governmental measures are badly needed. In fact there is a stark contrast between the position of environmental issues on the international agenda (where they are high and ascending) and on the national agendas of the ECE countries (where they are low and descending).

Environmental cooperation, nevertheless, *per se* does not explicitly favour liberalism nor dependence (see paragraphs 2 and 3). In theory it could be based on either of the two types of relation. Future ecological conditions can be seen as a consequence of the integration into the Western economic framework or they are determined by Eastern dependence on foreign decisions. The integration of East and West European environmental policy is thus contrary to environmental dependence. The latter is forced onto Eastern Europe, and implies a dominance of Western needs and brings the danger of growing environmental negligence; the former is developed jointly, bearing in mind needs and abilities of both sides. Both have their advantages and disadvantages.

Economic Implications

We can identify three reasons why even economic development may have negative environmental results (*Yearly*, 1991, p. 162):

1. Externalities of pollution and its subsequent social costs, which include a decreasing life-expectancy, increasing infrastructural and health expenditures and cleanup spending, limit the potential net benefit.
2. Profits in one specific area might be outweighed through losses which are caused by environmental deterioration in other sectors. This is the case if the latter rely mainly on a clean environment and applies especially to sustainable activities in tourism or agriculture.
3. Usually healthy, expanding and future-oriented companies are able to fund pollution control out of rising profits. Firms which are forced to shift their production to cheaper locations with lower ecological costs, on the other hand, are likely to have less environmental awareness.

Although environmental problems in Western Europe are far from being solved, some levels of emissions have stabilised, which suggests that the effect of economic growth can partly be offset by technological progress in reducing emissions (CEC, 1991, 12.5 and 12.6). In Eastern Europe the

opposite is likely to happen: on the one hand, after the present decrease a sharp rise of economic growth rates can be expected; on the other hand it is by no means clear that environmental technology will be available to a similar degree. Lack of knowledge, skills and financing are likely to slow down the introduction of effective environmental protection.

In simulations of policy options for the Internal Market a task force group of the EC found that

government financing of environmental investments had little or no influence on economic indicators. Moreover, increased environmental protection will give an impetus to growth in the environmental protection industry. So there is no evidence that expenditures at this level for the implementation of environmental policies would reduce the benefits of [expected economic growth in] the Internal Market. (CEC, 1991, 12.9.)

These results suggest that traditional arguments about the feasibility of environmental protection – ECE cannot afford the luxury of environmental expenditures – have to be reviewed carefully.

A further caveat concerns the potential negative impact of free trade on the environment. If national environmental measures are seen as 'trade distorting', successful economic integration in the international framework – and the ensuing lack of national environmental measures – would involve increasingly negative environmental impact.

Social Constraints

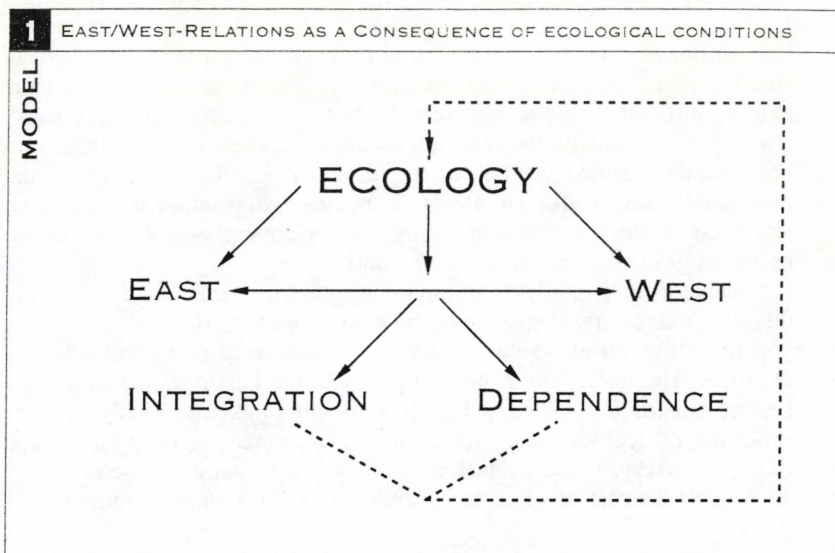
Any consideration of environmental cleanup and reconstruction in Eastern Europe must bear in mind that such matters are unlikely to be high on the list of priorities. There are other social problems which require immediate solutions, and sometimes environmental demands could even worsen the existing difficulties. Especially when the closure of highly polluting (heavy) industry is at stake, the affected population sees a contradiction in ecological measures: unemployment for them is a far more direct and perceivable danger (Nissen, 1992). Thus close cooperation between East and West is put forward as the only way of coping with environmental problems, which affect Europe as a whole.

Bachmann, in his study on the environmental reconstruction after German reunification, clearly demonstrates how an exogenous (in this case by the Federal Republic) approach neglects the existence of previously existing expertise. The inefficient ecological policy in the East does not mean that Eastern experts did not know how to solve the problems. It tells us more about the difficulties these experts had in implementing their knowledge (Bachmann, 1993). The exclusion of this home-grown expertise is one of the biggest dangers involved in dependence on Western eco-solutions.

However, environmental policy imposed from outside might also be considered the only way of ensuring that environmental problems are really faced up to in the East. Both environmental cleanup and protection are long-term goals; Eastern governments are presently concerned with more immediate challenges. Their failure in crucial areas (inflation control, unemployment) might deprive them of the necessary support of the population. In the programme of urgent reform tasks the environment is likely to be left behind.

Is Nature a Power?

If East-West relations are really affected by the impact of environmental constraints, all actors involved will have to act in a way they would not otherwise act. For the moment this is not the case: other interests and impacts have a stronger role. Nevertheless, in some regions the ecological catastrophe could turn into the key factor for all development questions. In that case most of the funds available would be used for environmental cleanup, as for example in the Salesian Triangle; theoretically, some regions might even be abandoned, and the population moved to other areas, because of too high 'external costs' (i.e. costs which are not directly linked to current production activities, but exist because of past pollution). In such a situation nature would be a really powerful factor, exercising the same influence on East-West relations as political, economic or military power. Indeed, the longer environmental factors continue to be ignored, the stronger nature's power will become (see Model 1).



Nature could then be considered a key factor in international relations. Slowly these considerations are beginning to be referred to in studies of international affairs. As one example, Strange, in her "realistic model" of a new global order, considers the three most important tasks and challenges for a joint political authority in the world community to be: the provision of security, the stability of money and exchange markets, and – "last not least, the protection of a sustainable ecology" (1992, pp. 7-8). Similarly, the EC Task Force for the impact of the Internal Market on the Environment stated the following:

The European Community has now a unique chance to assist the Eastern European countries to properly manage and protect their environment, thus contributing to the reduction of pollution [also] in the Community. (CEC, 1991, 12.10.)

This statement is applicable also to the other Western partners of Eastern Europe. If Finland were to use a strict cost-benefit analysis for its environmental expenditure, the whole national budget for the environment would be spent outside Finland – in the ex-USSR and the Baltic states.

The most striking example of Western responsibility for the East is unified Germany, where former Western Germany now faces the problem, in the new Bundesländer, of cleaning up its own waste, which had been cheaply exported in former times to the GDR. This could be a metaphor for a unifying Europe, too: environmental protection as a symbol of European cooperation – for mutual benefit.

The concepts of short-term profit maximisation and quick economic upturn (associated with and expected to come about solely through the introduction of the market economy) on the one hand and the real needs and actual resources of the whole community far into future on the other are in open contradiction. Since environmental deterioration causes irreversible effects, which might mean huge – and at present unpredictable – costs in the future, the importance of the time factor is only too clear.

All evaluations of environmental damage and cleanup costs are based on national statistics and estimations. In a report to the NATO Economics Directorate, Feshbach underlines (1991, p. 4) that available figures for the Soviet Union are at least 30%, and quite probably 50-100%, underestimated. The same is likely to be true for the rest of Eastern Europe, both for pollution levels and for estimated costs.

The longer environmental cleanup and reconstruction are put off, the more expensive they are likely to be. Long-term economic calculations suggest that these problems should be tackled immediately.

If environmental matters are linked to the operationalisation of aid programmes, then environmental policy decisions might be seen as a sort

of 'environmental imperialism'. This means their inclusion as a part of economic reconstruction is forced onto ECE. The effect of such an impression might be to weaken the success of reconstruction programmes themselves.

Environmental relations⁶ between East and West can be seen as a specific example of how ecological conditions influence international relations. We can thus conclude that nature really has become a 'power'.

2. A Liberal View of Integration

The explicit aim of Western policies towards the East and of Eastern policies towards the West has been integration of the East into the world market, as well into certain Western transnational political structures. Accordingly, the political slogan "Back to Europe" mobilised many Eastern voters in the first free elections. Generally – although opinions vary strongly – integration is perceived to bring about common security for both, and political stability (democracy) and economic development (market economy) for the East.⁷

This is something entirely new, since East-West relations were characterised by mutual exclusion until the fall of communism. Beginning with the Marshall Plan in 1948, which encouraged the start of economic and political integration of Western Europe as a way of establishing a bulwark against the Stalinist threat, the West pursued a clear policy of self-integration and built up the Organisation for Economic Cooperation and Development (OECD), the European Community (EC) and the North Atlantic Treaty Organisation (NATO). Policies vis-à-vis the East were characterised by exclusion of the latter, epitomised by the setting of the COCOM.⁸ Only the Conference for Security and Cooperation in Europe (CSCE), founded in 1975 in Helsinki, relaxed this exclusive strategy and made borders more permeable. The East followed this pattern closely and

⁶ Jessica Tuchman Mathews in *Foreign Affairs* (1990), and also as editor (1991) of *Preserving the Global Environment*, and Peter Haas in several publications have initiated the theoretical tackling of international environmental relations on a global level. However, the interference of environmental constraints in the economic sphere has mostly been discussed on a micro-economic level.

⁷ See the "Europe Agreement", December 1991 and the "Charter of Paris for a New Europe", Europe Documents, no. 1672, 14.12.1990.

⁸ Coordinating Committee for Multilateral Export Controls, founded in 1949 by the West under the leadership of the USA in order to restrict technology transfer to the East.

set up the Warsaw Pact and the Council for Mutual Economic Assistance (CMEA); it not only closed its markets, but controlled most political, cultural and social contacts in an attempt to avoid 'reactionary *embourgeoisement*'.

The new feature of East-West relations is that Eastern Europe, having developed specific and profoundly different economic, political and social structures in four decades of exclusion, is now being integrated in *existing* structures and organisations, which were established by the West either *without* participation of or in direct opposition to the East. Examples of structures created without the participation of the East are the world trade system, the General Agreement on Tariffs and Trade (GATT), the EC, the financial system as exemplified in the WB and the IMF; an example of structures which were designed in direct opposition to the East is NATO. Parallely, Eastern countries have abandoned all 'Eastern' integrative structures (CMEA, Warsaw Pact, Bilateral Agreements).

But on which of these aspects does integration theory focus? Integration theory started with the functionalist assumption that collaboration in one sector generates a real need for collaboration in another sector (Mitrany, 1975). Increasing transactions between countries, such as trade, capital movements and communications, as well as the exchange of ideas and people will socialise transnational elites which will create an integrationist identity and *politicise* common structures. Integration is described as a process,

whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new center whose institutions possess or demand jurisdiction over the preexisting national states (Haas 1958, p. 16).

It means therefore also a *reduction of sovereignty* in favour of trans- and supra-national structures and organisations. The success of integration depends on conditions, such as the perceived equity of distribution of benefits, or at least it presupposes that, even if some may benefit more, all grow and benefit to some extent, i.e. nobody loses in absolute terms. It is also of importance that alternatives to integration are less satisfactory.

According to integration theory, European East-West relations may be said to have an integrative character, if the following (necessary but not sufficient!) trends could be empirically proven:⁹

⁹ This list draws mainly on Deutsch (1957) and Nye (1971). Note that nothing is explicitly said about the necessary democratic character of integration!

1. There is a *growing symmetry and similarity* of economies. Most theorists are very sceptical about the possibility of integration between poor and rich nations (Deutsch, 1972). West European economic assistance accelerates this process which is mainly caused by introduction of market economies in ECE and by their integration into the world economy. This assumption is based on the liberal, as opposed to the nationalist and marxist paradigm of international economic relations (Gilpin, 1987, pp. 26-41), which assumes that all countries gain from increased exchange, i.e. that the opening of Eastern Europe to the world economy enhances its development and modernisation.

2. A compact *network of communication* (Deutsch, 1972) emerges, i.e. common political structures are gradually established, where conflict can be settled in a transparent and fair way. In East-West terms, this means that new common political structures are developed in order to settle conflicts, to formulate common policies and to steer the process of integration.

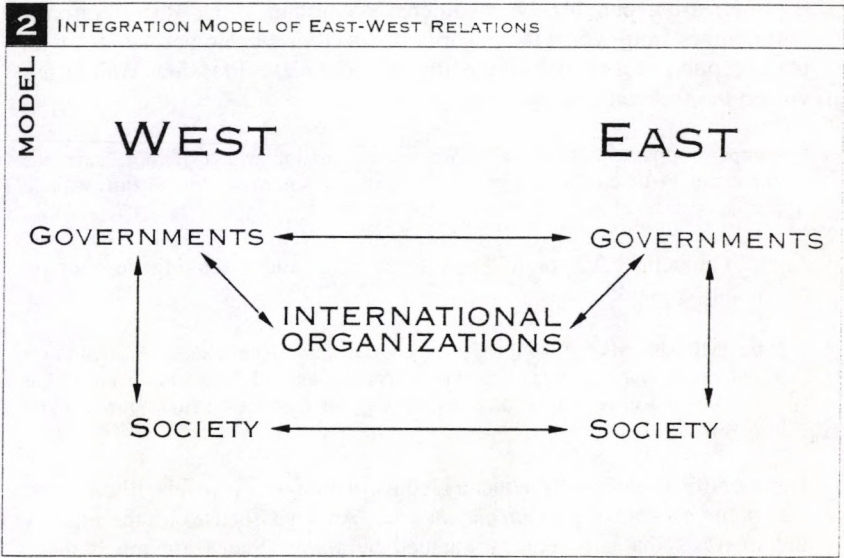
3. *Values* become complementary and similar. In East-West terms, this means that all involved states agree on general values like human rights, democracy and market economy. In particular there are *common visions* about the methods used for the modernisation and integration of Eastern Europe. Conflict exists only regarding technical, but not regarding principal questions.

4. *Environmental integration* into Western structures is speeded up. The communist regime has brought Eastern Europe to the edge of a catastrophe (Foerster 1991). Gradual evolution away from such a system would take a considerable amount of time. A radical integration into Pan-European environmental structures quickly improves the environmental situation in ECE.

Other theories, which are useful for the analysis of 'postcommunist' East-West relations, can be found in the literature on *interdependence*. Interdependence is usually defined as an institutionalised relationship based on *mutual symmetrical* dependence of two (or several) *equal* states as a result of international and transnational processes of interaction, such as trade, communication, international organisations (Kaiser, 1969). 'Domestic politics' and 'foreign politics' are more and more closely interlinked; limited natural resources demand more and more cooperation between states; the increasing complexity and entanglement of international relations demand more and more institutional arrangements and structures in order to manage a growing global interdependence (Behrens and Noak, 1984; Keohane and Nye, 1977). The interdependence approach also makes several important claims:

5. Military security is *no longer* the priority of individual states; rather its place has been taken by problems of industrial and technological development, supply of energy and limited resources, economic and ecological vulnerability and collective security. Growing interdependence is also the consequence of transboundary environmental problems.
6. Transnational actors, be they governmental or private, act more and more in the furtherance of their own aims, the regulating *role of sovereign states becomes limited*.

The integration-interdependence approach can be simplified in a figure where governments (East and West), international organisations, and societies (economies) influence each other, without being related by clear-cut structures of domination (see Model 2).



Western governments influence and support Eastern governments in transition, Eastern governments cooperate with Western governments for mutual benefits; they try to influence the public opinion of Western societies in order to obtain more support and Western and Eastern governments cooperate with international organisations (especially IMF and EBRD) in order to realise the above mentioned political aims of integration. Free trade and exchange are mutually beneficial.

3. A Critical View of Dependence

After two years of reform in Eastern Europe, disillusion has replaced the euphoria of the first revolutionary days. Despite the strong desire of the new political elites to become a 'part of Europe', they feel excluded. The CSCE provides just a loose, non-binding framework of collective security and NATO is, despite the creation of the North Atlantic Cooperation Council (NACC) together with the ECE, still a Western security organisation. The European Community avoided any commitment to eventual membership and to political cooperation in the recently accorded *Europe Agreements* with the ECE countries. The most important trade sectors (coal, steel and agriculture) still remain to some extent protected and the debt question is still unresolved. ECE citizens feel 'second class' and excluded in terms of job migration. Support for Eastern Europe is mainly debt-increasing and highly conditional on orthodox neo-liberal reform-programmes from which the majority of social groups do not benefit, with the exception of a small rising entrepreneurial class. President Walesa has voiced the following accusation:

Europe is divided economically. We, citizens of the poorer Europe, have the impression that the richer Europe is closing its doors in front of us. A time without friends is ahead of us.¹⁰

Anatolij Sobchak, Mayor of Saint Petersburg, and a leading democratic politician has said:

If the IMF demands that the Russian government carry out a reform which will lead to millions of starving citizens, then I say that this demand is not only immoral, but also futile and dangerous. It prepares the way for a new totalitarian power, more aggressive than the last one.¹¹

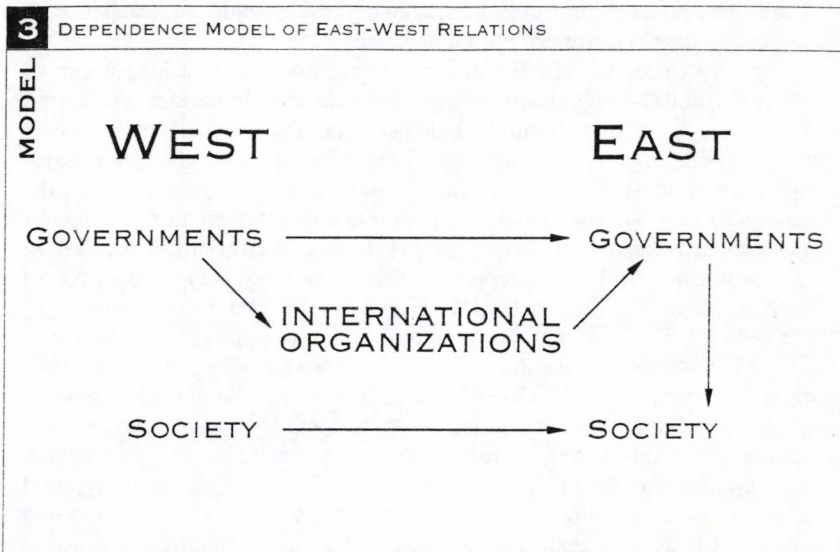
These political statements depict a gloomy picture which will be illuminated with some *aspects of dependence theories*. Analysis focuses on the politics and interests that are actually pursued by *states*. States are much more concerned with their own security and believe less in collective, integrationist, and interdependent solutions; they are more interested in expanding their national political influence and their economic power. The role of international organisations is not dominant and they have no

¹⁰ Speech at the Council of Europe, Strasbourg, 4.11.1991.

¹¹ "L'Accusa di Sobchak: 'Questa riforma uccide i Russi'", *La Repubblica*, 27.3.92.

autonomy, they represent the lowest common denominator of interests.¹² International organisations play a role only to the extent that they serve the interests of a limited number of powerful states.

The Eastern European countries, which face severe political, economic, and ecological crises, are in a weak position in bilateral and multilateral negotiations. As receivers of aid and support, they have little power to influence international structures to promote their interests (see Model 3).



Given that weaker states are *dependent* on stronger states, and on their international organisations, the latter have also some power to change the internal structures of the former. Dependence means therefore asymmetrical interdependence (in contrast to symmetrical interdependence), – a state of relations where the stronger state is able to exercise power over the weaker state. The weaker state is a *policy-taker*, strongly influenced in its development by *external forces* (Keohane and Nye, 1977; Gilpin, 1987, p. 33).

This dependence approach is decisively different from the original Latin-American *dependencia* theories. The latter try to explain in historical,

¹² This approach is referred to as realism. See Behrens and Noak (1984, p. 153) and Dougherty/Pfaltzgraff (1990, pp. 81-124).

economic and socio-political terms why underdevelopment is continuously reproduced by the cores (i.e. the developed North) in the peripheries (i.e. in the developing countries of the South). Partly based on a marxist concept of the value of labour, they claim that the surplus, produced in the peripheries, is not used in order to develop national economies. On the contrary, it is appropriated by core and periphery elites who find themselves in a strategic coalition dedicated to maintaining this dependence.¹³

In contrast to *dependencia*, dependence is analysed here on four levels. Each level poses critical questions, although the conclusions reached with respect to development are not all negative.

First we can speak of *cultural dependence*, referring to a low degree of internal cultural-ideological identity and the subsequent necessity to import it.¹⁴ Even if such a cultural-ideological transfer were conceived as a positive integration of values (see integration theory), the dependence approach holds that under certain circumstances the transfer serves the stronger states without helping the poorer and might even harm the poorer in its inadequateness and inapplicability. In East-West terms, it focuses on the problem that East European societies have exchanged one set of cultural-ideological legitimacy (Marxism-Leninism under the hegemony of the Soviet Union) for another. Admittedly, there is a plurality of ideologies offered by the West and cultural-ideological transfer is indeed an important factor of integration. However since ECE societies do not dispose of a coherent and stable identity during the transitional phase, their choice when adapting cultural-ideological patterns from Western countries might be less than optimal (arrow, Model 3). In particular, since the essence of Western ideology is deregulation, free market, and free trade, i.e. *neoliberalism* and since this is also the philosophy of most of the aid programmes of Western states and international organisations, second best solutions for socio-economic change and environmental reconstruction might be chosen.

Second, *political dependence* describes the need for external support of the leading elite (government) of a weaker country. Since no decisive

¹³ See Cordova (1973, p. 119) for a thorough discussion of the different marxist, neo-marxist and structural *dependencia* theories; see also Behrens and Noak (1984), Dougherty and Pflatzgraff (1990); for the distinction of dependency and *dependencia* see Caporaso (1978).

¹⁴ For an earlier discussion of this concept see Stadler (1993). Cox (1983) analyses the other side of cultural dependence, hegemony in cultural and ideological terms, referring to Gramsci's concept of hegemony. The idea is that leading transnational groups create a world-wide dominating ideology in the interest of the strongest states, for instance the 'neo-liberal free-trade' ideology in the eighties replacing the 'Keynesian-Listian' paradigm of earlier decades.

integrative political structures exist which allow conflict to be settled in an impartial and transparent fashion, the stronger country interferes – directly or via international organisations – in the internal political processes (see Model 3). This poses a problem for the democratic sovereignty. Again, suboptimal solutions for policies might be chosen, since democratic procedures are neglected and interest groups alienated. Especially when large scale reform programmes are at stake, it is necessary to include the major interest-groups (also trade unions) in the bargain, in order to make the bargain politically feasible, i.e. in order to avoid destructive opposition. In the East-West context, political dependence means that exaggerated external interference in the socio-economic reform programmes, mainly exercised by the IMF through highly conditional (i.e. political) lending, produces unintended and negative results, since the necessary bargaining processes do not take place.

Third, *economic dependence* conceptualises the asymmetry of economic power and trade relations and the vulnerability and sensitivity of dependent countries (Keohane and Nye, 1977). Dependence on imports of technology and know-how, on exports in order to finance trade and debts, on foreign credit, and on foreign investment is the structural basis of a country's political weakness in international and bilateral bargaining on trade, debt-servicing and matters of political integration. If this assumption holds, it should be possible to prove empirically that the ECE countries' position is weak in East-West (i.e. EC-ECE) bargaining on debt reduction, market access and on aid programmes. Economic relations will not be liberal as the integration approach would suppose. Economic relations between East and West will rather be determined by protectionism and other features of "economic nationalism", as outlined by Gilpin (1987, pp. 180-187).

Finally, the notion of *ecological dependence* depicts a two-level system as far as ecological standards are concerned. Higher standards are applied within the EC and the European Free Trade Area (EFTA) (especially in Germany, Denmark, the Netherlands and Austria), and a lack of regulation and enforcement characterises Eastern Europe. Through the Europe Agreement the ECE would be obliged to permit the free movement of goods including e.g. waste, which is considered as a commodity and therefore tradeable (Pestellini, 1992), but without the requirement to apply to EC environmental regulations. Exportation of (hazardous) waste to countries with less stringent regulations in exchange for badly needed hard currency is an obvious example of what might happen. In a disadvantageous bargaining position the danger of becoming the dustbin for Western Europe is real. In this situation, environmental problems are likely to be neglected. The neglect of certain problematic regions or issues by the West would be

reproduced by Eastern elites and populations, and in the worst case might lead to these areas being abandoned.¹⁵

Moreover, the internal conditions for support in Western Europe could change over time. The need for reconstruction and economic development puts Eastern Europe in a disadvantageous situation. On their own, the ECE countries cannot mobilise the capacities to undertake this task. For the time being, feelings of solidarity with ECE countries still prevail in Western Europe. But with growing contacts and the growing need for help this philo-Eastern wave could turn into xenophobia followed by a general loss of interest. The desire 'to establish a new iron curtain, to construct the fortress (West) Europe, to build a new wall' could be strengthened; such tendencies can be already found both in Germany and in Austria, which are the first countries 'affected'. Other countries are likely to follow soon.

4. Summary and Discussion of Assumptions

Although much could be added to the discussion of the liberal view of integration and the 'realistic' view of dependence in this paper, several of the underlying assumptions are summarised in Table 1 and 2. They will serve as the basis for further analysis in the empirical part in chapters II and IV.

Table 1. Integration Assumptions

- 1) Support for economic development and for cohesion, growing symmetry of economies and trade relations.
- 2) Gradual development of common inclusive political structures; conflict settlement in a transparent, equal way.
- 3) Joint development of suitable environmental policies.
- 4) Common values and policy aims (common vision).
- 5) Collective security.
- 6) Growing symmetrical, non-governmental, transnational links.

Table 2. Dependence Assumptions

- 1) Asymmetrical economies and trade relations, biased socio-economic development, no supportive international environment.
- 2) No common political structures, power play in non-transparent unequal bilateral relations, IO's serve interests of more powerful and not of dependent state.
- 3) Neglect of specific Eastern environmental conditions.
- 4) Conflictive dominance of Western values.
- 5) No collective security.
- 6) Asymmetrical, external non-governmental links.

¹⁵ The phenomenon of environmental refugees is discussed by Jacobson (1988).

Chapter III will analyse the development of political structures in East-West relations (section 1), discuss some aspects of trade relations between ECE and the European Community, with a strong focus on the *Europe Agreements* (section 2), look at the Western aid regime and the conditions it imposes on Eastern Europe (section 3), and, finally, point out some aspects of environmental integration and dependence (section 4). Chapter IV will discuss implications of these international factors on the internal change in Eastern Europe.

III. The Western Aid Policy and its Regimes: EC, IMF, World Bank, EBRD and Governments (G-24)

East-West relations changed abruptly when Western governments started to discuss assistance programmes for ECE countries. The problem was especially urgent for Poland, in summer 1989, when the first non-communist Prime Minister Tadeusz Mazowiecki formed a government after semi-free elections. From the very beginning it was clear that Poland was a strategic country in the transformation process of the ECE countries. Bulgaria, on the other hand, was not only slower in her attempts at reform, but is also smaller in terms of market, population, military and strategic importance. In relative terms, Poland and Bulgaria were the most heavily indebted countries of the region and they were in severe economic difficulties.¹⁶ In order to show support for Hungary and Poland, on July 14, 1989, the G-7 (presidents and prime ministers) gave the responsibility to the EC Commission to coordinate Western aid of 24 countries (G-24, which is the OECD countries less Yugoslavia). Proclaimed aims were the establishment of Western style democracies and market economies in ECE. Soon after the collapse of communism, opinions were expressed in Eastern and Western Europe to the effect that there was a *political* need for integration of ECE into West European *political* structures, in order to offer a stabilising framework for the difficult process of democratisation and economic restructuring. For example, Dahrendorf underlined his conviction

¹⁶ The history of the economic and the debt crisis is the same for many developing countries that tried to modernise in the 70s on the basis of foreign lending. Economic inefficiency, mismanagement, and the rise of interest rates at the beginning of the eighties tended to close export markets. Combined with other factors this ran them into insolvency (cf. e.g. Marer, 1988). Poland lost its creditworthiness in 1981, Bulgaria in 1986. Bulgaria unilaterally suspended interest payments in March 1990.

to the press that the EC should admit the new democracies, especially Hungary, Poland, Czechoslovakia: "ensuring the respect for Human Rights and stabilising the new Rechtsstaat conditions are the most important and urgent objectives for the EC". This would create a very useful kind of international commitment impeding the re-emergence of antidemocratic and chauvinist forces.¹⁷ What has happened since then in terms of policy towards, and integration of, the ECE and how this is continuing, will be reviewed in the next paragraph.

1. Political Support

Security

After the changes in Central and Eastern Europe, the first non-communist governments since the aftermath of World War II started immediately to disintegrate not only their political and economic ties, but also their security links, which led to the formal dissolution of the Warsaw Pact and CMEA in June 1991. Despite the initial willingness of the still 'half-communist' Soviet Union, Bulgaria and Romania, these institutions were not replaced by alternative forms of cooperation. At the same time, they sought political support and integration in the West in order to make their 'freedom revolutions' irreversible. The most appropriate and long-lasting solution seemed to them to be a binding, highly integrated collective security system developed on the basis of the CSCE structures (Dienstbier, 1990, pp. 403-4). However, the main Western powers were not favourable to such proposals, preferring the well-established structure of NATO. The Czechoslovak President Vaclav Havel therefore warned in March 1991 that ECE would disappear in a "certain political, economic and security vacuum. The old (..) ties have broken down, new ties develop only slowly."¹⁸ The Polish government argued that Europe as a whole should develop a uniform security system for all countries in the area, and it opposed the existing division into several, different security sectors. It had been in favour of a security system rooted in established contacts with NATO as early as 1990, when it set up a liaison office in Brussels. In October 1991, Foreign Minister Skubiszewski remarked that Poland would be prepared to negotiate any form of association with NATO, including "joining the alliance itself".¹⁹ During their summit meeting in October 1991 the Central

¹⁷ "Subito l'Est nella Cee", *La Repubblica*, 2 April 1992.

¹⁸ Havel's speech to the NATO in Brussels, 21.3.1991, *Europa Archiv* 10 (1991), pp. 243-48.

¹⁹ *Gazeta Wyborcza*, 7.10.1991.

European countries jointly appealed for "a close and institutionalised" association with NATO and emphasised "the need to create conditions for direct inclusion in the activities of the [NATO] alliance".²⁰

In Bulgaria the willingness to enter NATO had been mentioned by the Green Party immediately after the first free elections in Summer 1990. Subsequently, the government took over this position. Contacts existed at various levels, ultimately an exchange of high-ranking delegations took place in November 1991. Agreements were signed. Nevertheless, formal membership is not yet envisaged. On the NGO level a "Atlanticeski Klub" is still promoting entry to NATO "to assure stability for a country in the most unstable region of Europe".²¹

The results of two years of progress are encouraging, but not satisfactory in terms of integration. The CSCE has been enlarged, due to the emergence of several new states in 1991 (Croatia, Slovenia, the Baltics and the other Soviet Republics), but only to some extent deepened. A small 'Centre for the Prevention of Conflict' in Vienna, a small secretariat in Prague, and an 'Office of Free Elections' in Warsaw, as well as a consultative parliamentary body of representatives of national governments, have been established. The Council of Ministers decided in June 1991, in an important departure from the CSCE principle of unanimous decision making, that no government (not even that of the state under discussion) could veto the request of another member for clarification of a "serious emergency situation that might arise from a violation of one of the principles of the [Helsinki] Final Act or as the result of major disruptions endangering peace, security or stability."²²

Even if the CSCE represents an important factor, the major issues of European security are still decided in the framework of NATO, to which ECE countries still have no access. NATO itself accepts the CSCE as a competent institution for stability in Europe, but clearly does not favour full membership on the part of ECE countries (NATO 1991, Resolution 232). As a way of compensating for this, the foreign ministers of the USA and Germany, Baker and Genscher, initiated a 'North Atlantic Cooperation Council', which is close to having an observer status. This institutional change can be interpreted as an important step in the direction of common

²⁰ *Rzeczpospolita*, 6.10.1991.

²¹ Interview with Solomon Pasi in Sofia, 15 November 1991.

²² Quoted from Weitz Richard, "The CSCE's New Look", *Radio Free Europe, Research Report*, 7.2.1992.

security. NATO also declared there to be “inseparable links between Western and Eastern security”.²³

Governmental and Non-governmental Links

One important feature of political support for the new ECE governments was the establishment of a net of cooperation treaties between the ECE and Germany, France, UK, Italy, and other West European countries. Political support was expressed on this bilateral level mainly in the form of economic assistance, by offering more cooperation on the cultural and scientific level, and by negotiating general issues of a multilateral character on a bilateral level. Frameworks for the establishment of non-governmental links between ECE and Western countries were also introduced on a bilateral level. Politically significant were the various efforts by West European party confederations to support the development of parties in the ECE that would operate as political partners. The *European Democratic Union* for example initiated contacts everywhere with conservative-democratic forces and opened a political research and education centre in Budapest. The *Socialist International* acted in much the same way on the left-democratic political scene. The *Liberal International* and the *Greens* built up their own networks with equivalent groups. In particular the German parties expanded their network of ‘political education centres’.²⁴ This institutionalised political dialogue was a welcome device for ECE politicians to further their goals and it provided the possibility for West European parties not only to increase their political influence, but also to demonstrate their good will and concern about developments in the ECE.

Council of Europe

An important step towards political integration in terms of values, human rights and freedoms was the opening of the Council of Europe to the ECE. Hungary and the CSFR had already become members in 1990, Poland became a member at the end of 1991 after free parliamentary elections, Bulgaria still has an observer status. The nature of the Council of Europe ideally reflects the conditions of integration as described in Model 2.

²³ See the Declaration on the North Atlantic Cooperation Council, 20.12.1991, in *Europa-Archiv* 2/92.

²⁴ These centers are practically influential party-embassies. For the CDU the Konrad Adenauer Stiftung, for the SPD the Friedrich Ebert Stiftung, for the FDP the Naumann-Stiftung.

EFTA

On 13 June 1990, bilateral declarations on cooperation were signed by Hungary, Poland, and the CSFR with the EFTA, providing for gradual trade liberalisation and economic cooperation. This was extended in an agreement on a free trade area until 2002, which is rather similar to the three countries' agreement with the EC. Agricultural products remain largely excluded. A provision for the creation of the European Economic Area (EEA) between EFTA and EC was added (*East-West*, 1992, p. 5). A 'mixed council' was established that meets yearly. In a second step, free trade agreements are envisaged that should bring the ECE into the EEA (Lippert, 1990/1, p. 369). After 1989, trade with ECE declined (mainly due to the decay of EFTA-Soviet trade). However, trade with the three Visegrad countries has increased, mainly concentrated on Austria, with 70% of EFTA exports and 52% of EFTA imports. Nevertheless, the relative size is quite small, about US\$22m – compared to US\$6.7 billion with the far away 'Dynamic Asian Economies' (DAE) (EFTA, 1991, pp. 38ff).

2. The Europe Agreements

The most important accomplishment in Western aid was the conclusion of the *Europe Agreements* in November 1991, agreements on association with the EC, reached after more than a year of intense negotiations. Initially, in August 1990, the EC Commission presented a very general scheme for bilateral association agreements with Poland, Hungary, and the CSFR,²⁵ which was to go beyond the just accorded trade and cooperation agreements. A free trade area was the economic aim; the institutionalisation of a political dialogue in the framework of the European Political Cooperation (EPC) was the political aim. Further elements were technical, industrial, and scientific cooperation as well as financial assistance. Negotiations about this proposal began – after explorative discussions – officially in December 1990.²⁶

Conflict between ECE and EC-members arose because the EC was not willing to explicitly include in the text the option of full membership for the associated countries. There was also significant dispute about the extent of EC trade liberalisation, where especially the southern European countries, like Greece, Portugal and Spain, objected strongly to far-reaching market

²⁵ See COM (90)398 final, 27.8.1990; Lippert (1990, p. 369).

²⁶ Explorative talks finished in October 1990, cf. VWD-Europa, 24.10.1991. Talks with Poland on 12.2.91, 18/19.3.91, 22/23.4.91, (Lippert, p. 374).

access in the most important, so-called *sensitive* sectors, such as agricultural products, textiles, steel and automobiles. Nor did the EC originally intend to concede the important freedom of personal movement of workers to the three countries (Mähr, 1990). At a certain point in the negotiations, the Polish delegation threatened to call off further talks, increasing thereby the political pressure on the EC. It was probably much to the benefit of the bargaining strength of the three Central European countries that an 'operational alliance' was created after a trilateral meeting in *Visegrad* in February 1991, where a joint policy for negotiations with the EC was decided.²⁷ Negotiations were able to continue only after the Council of Ministers's decision on a more flexible and wider mandate for the Commission.²⁸

In the final draft of the agreements that were signed formally on 16 December 1991 (but have still to be approved by the 15 European governments and parliaments) the EC recognised "the fact that the final objective of Poland is to become a member of the Community and that this association, in the view of the parties, will help to achieve this objective". The negotiations have produced a number of results, including the establishment of the following policy areas and aims, as well as the setting up of certain organs.

An Association Council is the key-organ of the *individual* agreement, where the EC-member states, the Commission and the associated state are represented. It meets at a ministerial level at least once a year. An Association Committee is subordinated to the Council and consists basically of senior civil servants, representing the council members. Additionally a strictly consultative parliamentary body with the right to information will be established.²⁹ Mähr summarises this set-up as follows:

On the political aspects, these agreements represent progress, as they at least create bilateral forums for a dialogue, although this bilateral approach is reminiscent of the

²⁷ However, Poland's proposal to establish a permanent institutional body that would coordinate activities between the three countries was not accepted by Hungary and the CSFR, nor was the idea of a free trade zone or a joint government-sponsored banking system. The Hungarian side regarded this deepening of the triangle cooperation as a mistake, since it would slow down the process of integration into West European institutions. In November 1991, the three countries reached an agreement to liberalise trade over the next five years.

²⁸ The committees continued serious discussions in September 1991.

²⁹ The Association agreement is very similar to the European Community itself: the all powerful council, the assisting technocratic expert committee, little parliamentary control and influence.

'divide et impera' option, and does not really guarantee an emancipated dialogue but means only a taking over of Community decisions by these countries (...). (1991, p. 32.)

Concerning industrial free trade, tariffs and quotas are to be phased out by both parties. The EC is liberalising in the first 5 years, although it will still keep some quotas and customs duties in the sensitive areas,³⁰ while the associated countries reduce their protection more slowly in the course of the second phase of five years, which completes the transitional phase of ten years. Beyond the trade-liberalisation, the agreements provide, in a long term perspective, for political, technical, and juridical assistance in order to bring the national standards of the three countries into harmony with the EC *acquis*, similar to the provisions of the European Economic Area Treaty that the EC has negotiated with the EFTA countries.

The complicated agricultural settlement with the multitude of quotas and ceilings in different annexes of the agreement will probably remain. Agricultural trade liberalisation could provide for some quick enlargement of ECE trade shares in the EC; however, this seems unlikely due to the complicated operation of the Common Agricultural Policy of the EC (Pinder, 1991, p. 64).

Concerning the movement of people, *legally* working citizens from the associated countries have to be treated in the same way as EC citizens. This means that there will be no legalisation for *illegally* working CEC citizens, something which was originally demanded by the Polish side. "Just as vague and non-committal are the provisions for the second stage, stating that the Association Council shall examine ways of improving the movement of workers "taking into account the economic and social conditions in Hungary, Poland and the CSFR [and] provided the employment situation in the Community allows" (Mähr, 1990). The hope of Pinder (1991, p. 69), that a more liberal approach would "contribute to integration at the level of populations", is thus far from being realistic.

Supportive to the integration approach are the agreements on economic cooperation and assistance, including monetary cooperation, wide-ranging sectoral support in industry, education and the environment as well as the notion of environmental and social sustainability. The agreements are on the other hand explicitly tied to severe political and economic conditionality,

³⁰ Steel duties will be cut by 50% in the first and 50% in the second year by the EC. The coal sector customs will be reduced annually by 20%. Textiles are separately negotiated in the Uruguay-Round of the GATT, but the EC agreed, despite Greek and Portuguese opposition, to eliminate its textile tariffs by the end of the transitional period (see also Pinder, 1991, pp. 61-62).

which could theoretically lead to their suspension if progress towards market economy or democracy is interrupted.

From both an integration and a dependence point of view, the following criticisms could be put forward:

- there is too little trade liberalisation in the sensitive areas and the adjustment period for the associated countries is too short: nobody can imagine that their economies will be considerably better off in ten years, since most of them are still decline even in 1992;
- not even small steps are taken in the direction of free movement of labour;
- the institutional approach is bilateral (De Largentaye, 1993) and asymmetrical³¹, the associates are deemed to be policy takers;
- the restrictions on state subsidies affect the three countries much deeper than the EC.

In July 1991, Bulgaria – after having declared its interest several times in little more than a year – was the fourth country to be invited to negotiate an association agreement with the EC. “The time has come for Bulgaria to take its place in the new architecture of the European continent”, as the letter of Jacques Delors put it (Engelbrekt, 1991, p. 7). The extension of the Europe agreements to Bulgaria and Romania was envisaged in January 1992. Concrete negotiations on their inclusion started in March 1992 (*East-West* no. 528, 16 January 1992, p. 2).

Central European Initiative (CEI)

The Central European Initiative (former Penta- and Hexagonal) consists of Czechoslovakia, Croatia, Slovenia, Hungary, Austria, Italy, and Poland. It provides a structure aiming at pragmatic cultural, political and economic cooperation in the region. On November 12, 1991, the EBRD agreed to act as the official secretariat for economic matters of the CEI. The role which is played by the Initiative is clearly an integrationist one, but its relevance is marginal. However, on a regional level the working groups (for example on the environment) aim at strengthening cooperation at lower levels.

³¹ Notwithstanding some minor advantages for the CEC on time limits for import liberalisation the asymmetry favours the EC – in contrast to what an article in *East-West* (no. 516, 16 December 1991, pp. 2-5) claims.

3. Aid Regime and Conditionality

The existing aid regime sheds some light on both interpretations of East-West relations. On the one hand, there is a strong general rhetorical commitment to the liberal and integrationist values mentioned above; on the other hand, there is a conflict of values not only between the donors and the recipients, but also among the donors themselves. This is visible in the emergence of the *international aid regime*³², with its most prominent multilateral agencies the IMF, WB, EBRD and the EC. Those international organisations have kept each other informed, collaborated closely, complemented each other in their activities, and have operated with a common set of principles:

- Assistance for the modernisation of ECE's should be geared to quick orthodox macro-economic stabilisation, the rapid introduction of a market economy, trade liberalisation and instantaneous privatisation.³³
- The ECE's debt from the communist time has generally not been forgiven (with the exception of 50% of Poland's debt to the Paris Club, see below) and the restoration of external imbalance (debt repayment and trade deficit) is a top priority. Aid is mainly given in the form of advice, technical assistance, export credits on sound banking principles, and soft loans for macroeconomic stabilisation and balance payments financing.
- Most resources for the reconstruction of the ECE should be generated domestically or take the form of foreign-direct investment. Aid from the West is 'help' for 'self-help'. It is intended first of all to support the emerging private sector and facilitate the reconstruction of ECE but it is not seen as the main promoter of economic development.
- Recipient countries are bound to high conditionality in order to avoid reform-stops and a waste of international investments.

These principles reflect liberal, but not *integrationist* (no political institutions and weak developmental character) ideas incorporated in the founding charters of the various international organisations. They reflect the

³² The term 'international regime' is used – without theoretical intentions – in order to analyse the interplay, common objectives and differences of these international organisations. It refers to John Ruggie who defined regimes "as a set of mutual expectations, rules and regulations, plans, and organisational energies, and financial commitments that have been accepted by a group of states" (Ruggie, 1975, p. 570).

³³ See the two volumes *European Economy* (CEC 1991/2), and the UN-EC study (1991a), devoted to Central and Eastern Europe, for summaries and discussion of Western policies and policy prescription in ECE. See also Uvalic/Espa/Lorenzen (1993).

awareness that the cost of reconstructing the ECE will be too high to be financed out of the funds of international organisations or individual donor governments. In terms of domestic economic policy, they reflect an orthodox-neoliberal vision of economic policy.

European Bank of Reconstruction and Development

Conflict and cohesion in the international aid regime can be well observed in the history of the EBRD, set up specifically in order to establish democracy and market economy in Eastern Europe. The establishment of the EBRD was first proposed in a speech by the French President François Mitterrand in October 1989, soon after the collapse of the communist governments. Initial discussions between the Western countries that signed up as prospective share-holders reflected certain conflicting ideas about the Bank's role. The USA, as the largest single shareholder demanded (together with Britain) that the EBRD should direct most of its energies towards aiding the private sector. By contrast, the French government envisaged a more interventionist and infrastructural role for the bank. Whatever the competing ideas of the larger shareholders (we doubt that somebody has seriously asked the ECE about their opinions, but this needs further research!), its Founding Agreement explicitly commits it to promoting a political and economic transformation towards multi-party democracy and market economies. It also specifies that at least 60% of all loans should go to the private sector, that loans will be distributed on sound banking principles, which according to EBRD rules means that projects would be feasible even if they paid above London Inter-bank Offered Rates (EBRD, 1991). The bank's (since June 1993 former) President Jacques Attali has always proclaimed his belief that it should act as "the vanguard of the private sector".³⁴

Since it started work in April 1991, activities of the EBRD have been mainly project oriented, i.e. promoting foreign investments in industry and telecommunications, which is argued to be necessary if further private capital is to be attracted. According to Attali, the bank also negotiates buying shares in ECE print medias and TV-companies. It aims to help in establishing parliaments, constitutions, organising local administrations and writing tax- and trade law.³⁵ The EBRD is also collaborating closely with the other multilateral institutions involved in the aid regime. It has a special unit devoted to co-financing specific projects. It has signed formal cooperation agreements with governments and institutions, including the

³⁴ See Michael Hughes (1992, p. 39).

³⁵ See an interview with Jacques Attali in *Süddeutsche Zeitung*, Nr. 84, 9.4.92, p. 30.

EC, whose PHARE programme has played a more important role. So far, only a few projects have been actually decided on and brought to realisation, and financing has been limited, totalling ca. 150m ecus until the end of 1991, and 620m ecus in the Bank's first year of existence.

World Bank

In principle, the WB's activities are similar to those envisaged by the EBRD. However, in practice, the WB has been more active, in particular in Poland since 1986, when this country joined the Bretton Woods institutions. It offers general policy assistance for transformation programmes through Structural Adjustment Loans (SALs). The WB supports major policy and institutional measures in the financial and the private sector development, including privatisation, restructuring of the enterprise sector, establishment of a social security net, and of employment and training services. SALs are 'quick-disbursing' and provide also a balance of payment support. The WB offers also infrastructural financing in transport and telecommunication, energy, environment and human resource development (see Table 3).

Table 3. World Bank Activities in Poland and Bulgaria, 1990-91 (Million US\$)

Poland	
Industry and Agro-Industry	460
SALs	300
Policy (Privatisation)	480
Infrastructure	863
Environment	18
Employment Promotion	100
<i>Total</i>	<i>2221</i>
Bulgaria	
Policy	18
SALs	250
Source: ECE, 1991.	

International Monetary Fund

The activities of the IMF reflect an important characteristic of the aid regime: the principle that the donors are entitled to make wide-ranging policy prescriptions to recipients. While this could be interpreted as an infringement of national sovereignty, most ECE governments have generally been happy to accept this principle. First, their own blueprint of reform often envisages an economic system not unlike that sought by the IMF. The Fund's main demands have been a) the establishment of macro-economic stability through cuts in public expenditure and b) devaluation in order to increase exports for the debt service. Linked to world market integration, the fund has also conditioned its help on rapid trade liberalisation and privatisation. Secondly, the Fund has given wide-ranging financial and

technical assistance and political support for reform programmes (see Table 4).

Recipient countries have not been in a position to reject the IMF's conditions, since the alternative would have been economic collapse without the prospect of aid. The IMF's position has also been of utmost importance to the ECE as it represents the *policy leader* of the *whole* international aid regime in that all other bilateral and multilateral initiatives are linked to the agreement between the recipient and the IMF. In terms of foreign policy, the IMF has therefore been the key to the whole of Western assistance, whereas in terms of domestic policy, it has reinforced and legitimised the various governments' austerity/reform

programmes vis-à-vis social and political opposition. This was clearly visible for example in Poland in 1991, when she was not able to draw the second tranche of its extended fund facility (SDR102m), because it had failed to meet key performance criteria.³⁶ The main reasons for the conflict were pressures of interest-groups (especially the trade unions) against the further harsh budget cuts and radical privatisation plans, which involved reducing income and accelerating lay-offs of workers (Stadler, 1993).

The G-24 Aid Programme (including EC's PHARE)

Within the international aid regime, there has been a *sub-regime* in the form of the G-24 ECE-assistance, which was linked in policy terms to IMF guidance.³⁷ According to the EC, which coordinates the G-24 effort within its PHARE Unit, 24.7 billion ecus (US\$31bn) had been pledged or

Table 4. IMF Engagement in Poland and Bulgaria (Million SDRs)

Poland (Quota 680):	
Standby-Credit (1990)	509
18.4.1991 - 17.4.1994	
Extended Arrangement (EA)	1224
Compensatory and Contingency Facilities (CCFF)	692.2
Bulgaria (Quota 310):	
15.3.91 - 14.3.92	
Standby-Credit	279
CCFF	170.7
Source: ECE, 1991.	

³⁶ *Financial Times*, 18.8.1991.

³⁷ See the Action Plan (CEC, 1990) which tries to coordinate assistance by the G-24 countries. Representatives of the international organisations were usually present at important coordinating meetings.

committed by donor countries by the end of May 1991 (UN-ECE 1991). The support for economic and political reform included increased access to Western markets, macro-economic loans to assist the balance of payments and currency stabilisation, project finance and technical assistance, as well as environmental cooperation and some short-term humanitarian aid.

Table 5. G-24 Assistance to Poland and Bulgaria 1989-91 (Billion US\$)

	Bulgaria	Poland
Restructuring	0.1	1.8
Trade Credits	0.6	4.0
Macro-policy	0.5	1.8
(of which directly related to IMF lending)	0.8	1.0

Source: ECE, 1991.

Debt-Reduction for Poland

Although chiefly economic in its character, the substantial reduction of Poland's external debt was also an important sign of political support. At the beginning of 1991 Poland's foreign debt had reached US\$48.5 billion, of which about \$33.3 billion was owed to the Paris Club, the association of Western creditor countries, ca. \$11 billion to commercial banks and the rest to other creditors. In March 1991 the Paris Club agreed to write off about half the official debt. The agreement provided for a gradual reduction, whereby it would be reduced by 30% over the following three years if the country succeeded in transforming its economy according to the requirements laid down by the IMF. A further 20% was to be written off in 1994 if all the IMF's conditions had been met by that time. The agreement also provided for the granting of debt relief beyond the 50% reduction and the voluntary conversion of up to 10% of the debt into equity in privatised Polish companies or other forms of commercial investment in Poland, particularly in environmental projects. Shortly after the agreement had been concluded, the USA and France announced plans to reduce Poland's indebtedness by a further 20% and 10%, respectively, by either partly or fully converting those debts into specific environmental projects to be funded by Poland in Zloties (Weydenthal, 1991). It has, however, to be noted that Poland, since it had not serviced the bulk of her debt before, has to pay back in real terms more than before the reduction. Additionally, the absolute total of foreign debt will not be reduced, since most of the support in the framework of the aid regime has been in form of repayable credits.

Against the impressive background of this international aid regime, it is important to note several counterproductive trends in terms of integration:

- Most ECE countries, especially Poland and Bulgaria, experienced a substantial net outward transfer of financial resources in 1990, caused mainly by the outflow of private capital and by the servicing of foreign debt, which more than offset inflows of financial assistance from the West (ECE, 1991, p. 88). Since domestic savings, i.e. the basis for investments, have been drained by very restrictive fiscal and monetary policies, the modernisation of ECE is threatened. This in turn is counterproductive in terms of integration and strengthens the dependence situation of ECE.
- One third of the credits are in the form of investment and credit guarantees, which will not be activated before the recipients meet their contractual obligations (Mihaly and Smolik, 1991).
- Credits and grants offered by the G-24 are frequently targeted to encourage companies from the donor countries³⁸ as well as non-profit organisations (for example universities, consulting firms and consultants, research institutes) (Mihaly and Smolik, 1991)
- More than 40% of credits have been offered on a commercial basis. ECE enterprises and states often cannot afford the high interest rates. Hence, much of fresh credit lines remain unutilised.
- Most of the assistance is debt creating. If the present Western policy is continued, it is likely that the financial burden will become even greater unless aid and reforms stimulate strong export growth (*Neue Zürcher Zeitung*, 20.9.1991).

Trade Liberalisation and Foreign Direct Investment (FDI)

According to the liberal/integration approach, mutual trade increase is a key issue in East-West relations. Consequently, the concessions that were made by both sides in abolishing the mutually exclusive post-cold war trade regime contribute to integration into the world economy. The West largely abolished the remaining export-restrictions under the COCOM regime and introduced GATT-conform import regulations for the ECE, including the Most Favourite Nation treatment and the General System of Preferences, the latter being applied usually only to Third World countries. The concessions that were made by the EC in the framework of the Europe Agreements can be quoted as an outstanding example in support of the integration-assumption, despite some difficulties during the negotiating process and some shortcomings that were discussed above.

The ECE largely abandoned state-managed trade, and introduced GATT conform import rules with rapid import and export liberalisation to an

³⁸ Austria e.g. finances the highway from Vienna to Budapest on the Austrian territory with ECE-assistance money.

initially low protection level, which made a far ranging penetration by Western firms possible. Also, by abandoning the ECE trade-system CMEA, trade was radically diverted in favour of the West. Starting from a clearly asymmetrical balance of East-West trade, Poland for one (but also CSFR and Hungary) was able not only to increase sharply the overall amount of exports to the West (especially to the Eastern EC area), but also to shift exports in favour of more highly processed goods (UN-ECE, 1991, p. 90) in the period 1989-91. At the same time, imports multiplied and contributed to a modest, limited amount of capital modernisation in a limited number of sectors.

The overall impact of the trade measures taken by the West is difficult to assess and this is not the purpose of this paper. However, Mihaly and Smolik consider that the liberalisation (in the package of the G-24 support) has had a strong impact on some Eastern exports.

In the longer term, the Eastern countries could derive large benefits from the dynamic effects of trade liberalisation if the reforms succeed in improving the competitiveness of Eastern manufactures and result in a more world market oriented trade policy. (1991, p. 209.)

Although FDI obviously is not 'assistance', the liberal integration and the dependence approach would perceive it to be a key element in modernising the ECE. Despite the clear difference between long-term large-scale corporate investment (like the share of FIAT in the Polish car producer FSM, and General Motors' share in FSO) and small-scale investors that sometimes behave like pirates, there is a general understanding about the importance and desirability of FDI. Still, the impressive number of 4350 and 800 joint ventures in Poland and Bulgaria respectively, should not obscure the fact that the stock of FDI for example in Poland was worth only US\$200m (UN-ECE, 1991, p. 102).

4. Environmental Aid

Partly contained within economic aid and partly separate from it, environmental aid stands for specific transfers in the environmental area. As above, the political, structural, financial and juridical aspects will be discussed separately. High-level declarations of goodwill and recognition of the need for environmental protection and cleanup in ECE are frequent. However, the more concrete the challenges become, the less action can be observed.

Ecological Awareness?

More than elsewhere in Europe the environmental issue simply cannot be a marginal concern in the East:

Environmental deterioration has reached such alarming proportions that economic growth itself is necessarily predicated on restoring the environment. Even the most basic conditions of production – access to such fundamental resources as uncontaminated water, land and air – can no longer be taken for granted and require direct restorative investments before economic growth can be rekindled (Reed 1990, p. 3).

Recognition of the inseparable character of environmental problems already partially existed before 1989. Transboundary pollution from Eastern Europe had particularly affected the neighbouring countries. In some cases money was spent to greater effect in Eastern countries in an effort to lower pollution in the West. This process has increased with the fall of the iron curtain. Knowledge of the real environmental deterioration in Eastern Europe has spread widely and made its way through the Western media. The danger of nuclear pollution in the West is the clearest one: Western countries not only see that they are affected, but also recognise their own responsibility. At least in this field pan-European cooperation seems to be feasible. At a meeting of the CSCE in Helsinki the Belorussian foreign minister declared the intention of the former Soviet republics to denuclearise and asked for a pool of international experts to supervise the security measures at the nuclear plants and to elaborate a European Ecology Map. At the G-7 meeting in July 1992 one of the major themes was precisely the situation of the Eastern nuclear industry.

Obtaining a similar general recognition of responsibility as regards environmental questions in Eastern societies in general is one of the most important tasks: in the long run environmental education has to bring about changes in life-style, which are comparable (though different) to the changes that have already occurred in the West.

It is interesting to consider a 33-point-program on industrial development which was developed at a conference sponsored by the United Nations Development Program (UNDP) held last November in Zaborow/Poland. This document emphasises two points: on the one hand, it suggests a detailed step-by-step scheme for the rapid *economic reconstruction* of Eastern Europe, recognising that the basic problem is the lack of capital for investment. On the other hand, its cost-benefit-analysis is closely connected with the principle of *environmental sustainability* as a way of ensuring the lowest possible expenses for energy requirements, protection of natural resources, removal of toxic and dangerous components and a high recycling efficiency.

The experts' argumentation includes concern for continuing competitiveness through employment creation and the search for suitable export markets, pointing out the *benefits of sustainable development*. These range from immediate financial savings through efficient energy use, and a shift to environmental services and technology sectors with higher product quality, on the one hand, to social effects as improved worker morale, education and research aspects, on the other hand. A central role is given to the dissemination of information about these concepts.

Evgeni Popov, economic advisor to the Bulgarian parliament, in his contribution to the conference stressed the role of indirect payment in the necessary privatisation of state property. Empty portfolios impede an efficient use of the polluter-pays-principle for compensation and reconstruction of environmental damage. Popov therefore put forward the idea of payment by shares of the polluter's property, which tries to harmonise two crucial issues – privatisation and environmental reconstruction – with the following advantages:

- to reduce tension between polluters (and their employees) and the affected population through some compensation;
- to introduce new share-holders, who have a personal interest in an environmentally sound performance, into the decision-making-process;
- to avoid a sell-out of national property to foreign investors, who prefer new investments (like in East Germany) to the reconstruction of existing structures – something which is not in accord with the principle of sustainable development;
- to achieve indirect effects, e.g. a reduction of wind and water erosion if intensively exploited soil with single-crop farming is sub-divided through privatisation into extensively used smaller units.

Among the growing literature on 'Environment and Eastern Europe' the findings of the above mentioned conference stand out by reason of their profound knowledge of the situation and their adaptability to real situations. As Popov said in an interview:

It is no use to talk abstractly. Agriculture has to be developed – fine! But we must be more precise: which products, where, by which means, for which market; sheep cheese or dairy yoghurt, these are the relevant questions.³⁹

To Western ears some points might seem obvious. During recent missions to Eastern Europe, however, the reality of the situation proved to

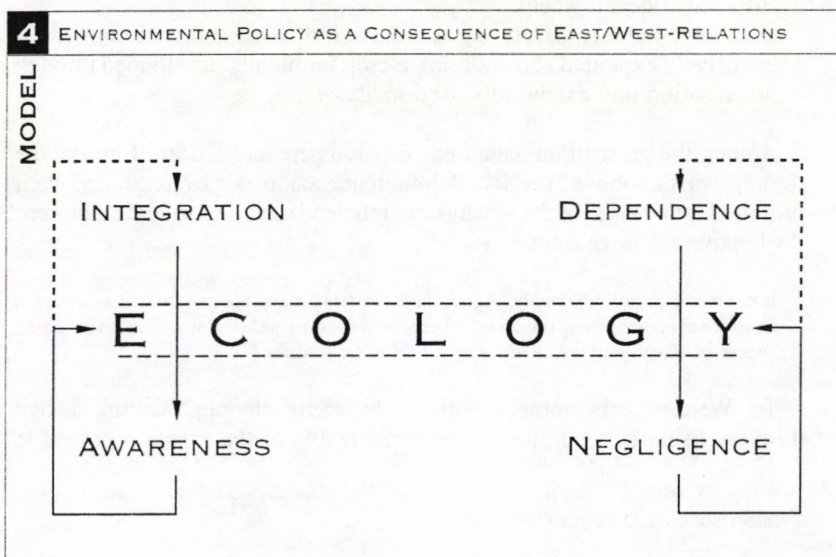
³⁹ Interview on 1 December 1991, Sofia.

be quite different. Even a minority of Western 'experts', and most national decision makers in the ECE countries have doubts about the chances of the introduction of ecological considerations – they consider it a luxury for advanced rich societies. Those who have no money – in their opinion – simply have to forget about the environment for the near future. The Zaborow declaration closes with the following appeals:

Historically industrial development in Central and Eastern Europe has been accompanied by substantial environmental degradation and damage for human health. In contrast, the prospective industrial restructuring of the region can yield benefits to public health and the environment of unprecedented magnitude. Political and economic changes are occurring rapidly in Central and Eastern Europe. Decisions on the future shape of this part of the world are currently being taken. The time to act is now!

Common Responsibility

The transfer of a functioning legal system, experience in enforcement and monitoring and the introduction of advanced environmental technology represents the only possible chance of a 'leap-frogging' to Western standards. Moreover, obvious undesirable developments could be avoided right from the start. The ecological question might even become a factor favouring integration: conflicting interests are likely to loose their weight, and symmetrical problem-solving should become more frequent with the growing awareness that environmental risk is a common and indivisible European problem (see Model 4).



Western Europe will give an increasing weight to require of trading partners to conform their environmental standards, and there will be increasing pressure to use tariffs and other fiscal instruments to enforce such requirements (Smith 1991, p. 11).

With the EC law getting more and more severe and effective, but implementation also more expensive, the Eastern states could take advantage from the fact that they are situated near to the EC and free-ride on the environmental policy of the EC. The most successful way to avoid asymmetric competitiveness would be precisely to bind them into the Community's regulations.

Eastern Europe might even become the laboratory for sophisticated environmental management, where Western firms can develop and apply the industry of the future – also of Western countries. This becomes all the more important, given that Western environmental policy is more and more guided by the principle of Integrated Pollution Control, which tends to produce less uniform solutions, but specially designed concepts for diverse geographic and social situations.

At any rate, with growing integration, the environmental impacts are going to rise. As an example, within the EC until 2010 a rise of SO₂ and NO_x emissions (between 8-9% and 12-14% respectively) is predicted as a consequence of growing economic exchanges in the Internal Market, notwithstanding technological improvements. Growing East-West trade is also expected to increase the environmental problems for both sides.

A complete integration into the Western system in the short or medium term is in any case impossible. The example of the GDR shows that problems tend rather to be underestimated and costs are likely to rise throughout the process (Bachmann, 1993, chapter 1). Moreover, the amount of money, concern and political willingness present in the German case, are far from being reached in the cases of the other Eastern countries.

Structures

Regional institutions whose task is to deal with specific transnational environmental hot spots already exist, (some even dating from Communist times), and need further reinforcement. For the Baltic Sea, the Danube Basin and the Black Sea these instances of cooperation involve both Eastern and Western countries and have an integrative character.

Especially the *Regional Environmental Centre Budapest* (REC) is dedicated to improving the internal institutional structures of the Eastern countries. Projects are proposed by the country itself, sometimes by a governmental entity, sometimes by a NGO or a scientific unit. The REC is responsible for the selection of projects, and manages the funding. Projects with a purely scientific interest are not supported, neither are purely

business-oriented projects. The multinational composition of the private, non-profit-making REC, with staff-members from all the countries involved and preferably chosen from NGOs, helps to assure that aid is properly need-oriented. The Centre was first announced by George Bush (hence its nickname 'Bush-Centre') and is also partly US-financed (mainly through the Soros Foundation). Other donors are to be found in most Western countries (mainly the EC, Canada, Japan and the Netherlands); the Hungarian government is also a donor (*REC Information Bulletin*, no. 4, December 1991).

On the EC's side, commitment to the environment has been declared an integral component of the PHARE Programme. A report *Environment Sector Strategy for ECE* was drafted by German experts, completed by the Commission and presented at the Dobris Castle meeting to the environmental ministers of both the G-24 and ECE in June 1991. It "focuses on alleviating the principal constraints hindering the implementation of the environmental reform itself" (Hull, 1991, p. 11), that is, concrete priority interventions:

[The goal of the Ecology Plan] is to establish and strengthen self-financing mechanisms for environmental protection measures [in ECE countries]. The environmental cleanup in these countries has to be achieved *together with and by* (emphasis added) the economical set-ups and reconstruction ... it has to be accompanied by the creation of a juridical and administrative framework which produces high environmental standards and offers a reliable basis to investors, and a program of environmental education and spread of knowledge... (Bundesminister, 1991, p. 114.)

The *European Bank for Reconstruction and Development* and its explicit insistence on environmental criteria and an Environmental Impact Assessment for all projects, contrasts with the Bank's engagement in a transnational nuclear holding, whose aim is to update Eastern nuclear plants (*Wochenpresse*, 9.4.1992). Great hopes had been vested in the Bank from an environmentalist point of view. Even before it came into existence the WWF called it "an environmental opportunity" (see Reed, 1991). Due to the fact that the bank has only been in existence for a short time and given that only a small amount of money has actually been spent so far, the environmental impact of the Bank itself still has to be assessed.

The decisions about project funding are taken unilaterally, but ECE countries are represented in the different advisory boards of the bank (EBRD, 1991, pp. 5-6). The Bank is committed to "promote *in full range of its abilities* (emphasis added) environmentally sound and sustainable development". Hence it does not promote environmental reconstruction as its main activity and give incentives *exclusively* for projects with

environmentally sustainable targets (EBRD, 1992a, Annex 1). The environmental review procedure can rather act as an obstacle to the realisation of unsound projects, and as a way of avoiding additional pollution in the future (which is fine for environmental goals, but not enough).

The main criterion so far has been the Bank's profit, based on a rather short-term benefit-reasoning. One of the major projects accepted is a General Motors plant in Hungary – economically sound, clearly less liable to pollute than former car industries, but not compatible with environmental sustainability as it increases the number of cars in ECE.

As an equity holder in a private venture, the Bank's role is stronger, because it takes over some liability. Since it is only an investment and development bank, other very effective measures like energy efficiency improvement (saving potentials up to 40%) or infrastructural action do not fit into the Bank's field of action.

Although acting with little integrationist attitude the Bank could eventually play a very active role, at least as environmentally sound developments are concerned. Projects could be introduced for environmental reconstruction and cleanup as a long term investment. This would increase the over-all role of the EBRD in policy terms, and lead to a more extensive use of the Bank's capital.

Bi-lateral cooperation in the environmental field between Western and Eastern governments is widespread. The most intensive activity has been established between neighbouring countries, such as Germany, Poland and Czechoslovakia as far as the so-called 'Salesian Triangle' is concerned (Bundesminister, 1991).

Appropriate Funds

Given the potential of the Western economies and the East's urgent need for aid, what has been done so far is hardly sufficient. A United Nations officer accused the West of "being stingy vis à vis Eastern Europe" (*La Repubblica*, 4 April 1992). Little money has been distributed by the EBRD,⁴⁰ and the scarce funding for public entities limits the Bank's influence to a still smaller sector of the economies undergoing change. As far as the environment is concerned, it was even less influential: in Bulgaria in 1991 93% of the industry was still state property; emerging private companies were mostly in the service sector or small-scale manufacturing concerns, whereas the big polluters were state owned. After one year, only

⁴⁰ However, bank officials claimed during an interview series that there are several projects in the bank's "pipeline".

620m ecus of the 10 billion available (*Financial Times*, 15 April 1992) have been distributed, and there are no specific environmental programmes among the awarded loans.

After the Dobris meeting the regional environmental programmes of PHARE were created, the expected expenditure being in the order of 20m ecus. A regional nuclear safety programme was also funded with 15m ecus. Nevertheless, there is general awareness, that several billions of Ecu would be necessary to reduce continuing environmental damage. The Dobris meeting is supposed to develop into a regular meeting, and the second ministerial meeting took place in Switzerland in early 1993 (Baumgartl, 1993a).

The EC Task Force for the *European Environmental Agency* is currently working on a real Pan-European environmental programme and the EC's role in it. However, it can by no means be taken for granted that this programme will actually be put into effect.

For a private institution, high amounts of money were made available through the above mentioned Soros-Foundation. In various countries the Open University Foundation is building up educational structures through the Open University Foundation. In the case of the Central European University, there is a special emphasis on environmental studies.

Debt-for-Nature-Swaps

A possible solution for the present incompatibility between the gigantic financial problems ECE faces⁴¹ and the need for expensive environmental reconstruction might be to rely on an unusual instrument: debt-for-nature-swaps. In its present form, it has been used mostly in Third World countries, mostly on private initiative and for purposes of nature conservation. This has meant that it has made only a marginal contribution (Schreiber, 1989, p. 342).

In an adapted version, a concept of 'debt-for-ecology' (or – depending on the viewpoint and the mutual benefit – also ecology-for-debt) swaps could relieve ECE temporarily from its debt repayments. Particularly for Bulgaria with its appalling foreign debt, its inability to serve it,⁴² and its

⁴¹ Bulgaria would be paying – had it not suspended re-payment in 1990 – more than half of its hard-currency revenue for debt service. Even worse, most of the debt (80%) is owed to the commercial banks of the 'London Club', which is a tougher negotiating partner than governments' banks (the 'Paris Club', which actually already rescheduled part of Bulgaria's debt).

⁴² On the debt stock market 1 US\$ of Bulgarian debt is presently worth some 16-19 cent.

serious environmental problems such a regime might be the only possibility to promote action.

The benefits for the Eastern country concerned are obvious and, above all, would materialise without delay. But there are also advantages for Western creditors:

- Decreasing environmental deterioration and pollution has a side effect also on the Western countries. This applies even more when global climate change or ozone depletion are taken into consideration.
- Secondary effects could be expected from the fact that better environmental conditions would favour subsequent investments (which would create a future credit market and thus act as a source of gains for investment banks).
- Rather than having to admit responsibility for irresponsible loans to communist governments – especially in the second half of the 1980s⁴³ – they could reschedule claims ‘for the good of the environment’. Such a good-will decision would have a direct effect on public opinion, and would be especially appropriate for commercial banks and their image.
- Inclusion of environmental issues in high-level and top-priority negotiations would strengthen the role of domestic environmental movements, NGOs and policy-makers, which would further contribute to increasing awareness in the debtor country.

First attempts at establishing similar procedures were made in Poland with the involvement of the National Bank. The results were sufficiently good to allow experts to suggest extending the experience – which had started with developing countries – to the rest of Eastern Europe (Schreiber, 1989). ‘Ecology-for-debt’ means a condition for debt rescheduling (or relief) which seems inevitable, given the liquidity problems of the countries in transition. The fact that there are explicit conditions regarding the introduction of emission levels and monitoring, and the implementation of environmental law should give the countries in question the impetus to start urgent initiatives immediately.

⁴³ Bulgaria’s foreign debt did not explode until 1985.

IV. Eastern Response and Internal Change

This chapter sets out the internal effects of Western policies, describing the difficulties and dangers involved and relating the political and economic situation to the initial assumptions.

What first comes to mind in all the ECE countries, but especially in Poland and Bulgaria, is that the transformation policies are causing significant political and social problems. Rising unemployment and pauperisation, sinking purchasing power parity, and the general feeling among politicians and populations that they are still excluded by the West, or that they are second class, create the possibility that domestic resentment against the international aid regime may begin to mount. Partly, this resentment can be attributed to the enormous leverage that the West has and that leaves little space to ECE politicians. Although opinion polls taken in 1990 suggested that there was fairly wide-spread popular support for market-oriented reforms among the population, recent polls suggest that the situation is beginning to change,⁴⁴ which could in turn threaten the reforms themselves.

There may be at least two sets of reasons for the growing uneasiness of ECE countries with Western policies:

1. The policies for internal change are not appropriate, since they are too radical and the change in external relations, i.e. the switch from exclusive to inclusive East-West relations, has been too slow and insufficient. What this means is that there has been too little trade liberalisation by the West, too little political integration, and that the neo-liberal shock-therapies have not worked. This reasoning is related to dependence assumptions and implies that there are clear, negative systemic outside influences that the ECE countries are not able to counteract.
2. The political learning process between the ECE elites and the populations is too slow; i.e. policies that were applied at an early stage in a radical way by ECE elites were not quickly communicated and explained from the top down. Firms did not adapt to the new market principles and reduced production; trade unions did not cooperate in favour of adjustment and political parties were too weak and thus unable to guarantee a stable political framework for reforms. This reasoning is more related to the integration assumptions and implies that there are difficulties in the political

⁴⁴ See e.g. *Eurobarometer*, no. 34, pp. 45-60; *Polityka*, February 1992.

processes of reform that will be gradually overcome by common efforts between East and West.

1. The Polish Transformation 1989-1991

During the Round-Table negotiations between the trade union of Solidarnosc, the OPZZ (the post-communist trade union) and the PZPR (the Polish United Workers' Party) in spring 1989, the political will for a radical change in the direction of democracy and a market economy became clear. Remedying the sky-rocketing inflation (ca. 900% in 1989) as well as stopping the beginning production recession were internal priority goals. Only after those goals had been achieved, would further system change be feasible. As indicated above, this gradualist plan of transformation did however not survive the political developments of the second half of 1989.

After the electoral victory of Solidarnosc in June/July 1989, the new government under Prime Minister Mazowiecki, Deputy Prime Minister and Finance Minister Leszek Balcerowicz, started drafting plans for far-reaching changes in the political and economic system, that is for a transformation from state-socialism to the reference system of highly developed Western countries. Balcerowicz's programme relied heavily on external support. Both the stabilisation of the declining Polish economy and the system changes could only succeed on the basis of external factors which the IMF, the World Bank and the Western governments were expected to guarantee (Economic Programme, 1989, p.6).

A comparison of the "Economic Programme" with the "Memorandum on the Economic Reform Programme in Poland and the Role of Foreign Financial Assistance", a memorandum which Balcerowicz presented to the IMF in September 1989,⁴⁵ reveals that the decision making process for transformation policies was established mainly between the new Polish political elites, the government and a variety of external, i.e. Western actors. The debate about how to stabilise the Polish economy was, to a large extent, carried on outside the country. Hundreds of Western advisors gave their opinions and the most dominant stream of ideas was created by external advisors to the government.

Since the elections in June 1989, three major plans for economic stabilisation and systemic change have been publicly discussed: the Soros Plan (developed by the American brain trust of the Hungarian born American millionaire George Soros), the Sachs Plan (developed by the

⁴⁵ Confidential document, quoted in Kowalik (1989, p. 6).

Harvard Professor of Economics, Jeffrey Sachs, also sponsored by Soros), and the Balcerowicz Plan, created together with the IMF and again advised by Jeffrey Sachs (Nuti, 1990).

In order to speed up the difficult internal discourse about the modality and schedule of adjustments to be made, Solidarnosc leader Lech Walesa proposed to the first, half-freely elected, Sejm (the Polish Parliament) that it should surrender its legislative competences to the government. Giving the latter the right to issue decrees would speed up and facilitate the difficult discourse about transformation policies.⁴⁶ This would strengthen the credibility in the eyes of the West, especially as regards the aid regime and foreign investment. Even if Walesa's proposal was not accepted, it has remained a recurrent political topic until today, which suggests an inherent authoritarian trend that is especially dangerous in a difficult period of system transformation.

Since the government wanted to start the programme on January 1st, 1990, the legislative chambers had to pass the government bills on major economic issues in a legislative marathon. During the course of internal debate, it was made clear by the IMF that there would be no approval of the government's "Letter of Intent"⁴⁷ before the legal basis for the macro-economic stabilisation and adjustment programme was created. At a later stage, in answering to a Polish request for an "extended arrangement" of US\$2-2.4 billion, it was publicly announced that further help – beyond an ordinary US\$715m stand-by loan – would be granted only if Poland kept to its economic policy obligations (*Zycie Warszawy*, 5.1.1990).

In spite of the general harmony of interests between the West and the Polish government in terms of a radical system change, there have been some specific conflicts about policies. Conflicts arose about:

- The extent to which the external debt had to be serviced and what tools of debt reduction should be used. After all concessions that were made in 1989/90, Poland still paid back US\$1,066m and US\$430m yearly for capital repayment and interest service respectively from approx. US\$9 and 11 billion export revenues.

⁴⁶ The politically discredited, post-communist five million members trade union OPZZ protested sharply against special legislative powers, saying that this meant introducing "martial law" to the economy, restricting civil rights and eliminating all trade unions from public life. *S. Zycie Warszawy*, 14.12.1989, p. 1.

⁴⁷ See "Camdessus in Poland", *Rzeczpospolita*, 12.12.1989.

- The extent of cutting demand. The government proposed a wage indexation of 70% of inflation⁴⁸ whereas the IMF demanded that there be only 30% in January, 20% in the following 3 months, and 60% in the rest of the year of 1990. The ongoing discussion about the 'popiwek' – the draconian anti-inflationary excessive wage tax for state-enterprises (only !) – also showed the divergent interests at work. The government, pushed by interest groups, had to try to avoid recession by an excessive demand-barrier, while the IMF looked more at promoting exports and creating a stable, convertible Zloty (EIU, 3/1991, p. 8).
- The extent of privatisation. Privatisation is possibly the hottest issue in the politics of reform since it involves a completely new distribution of power and wealth. The IMF had pressed for rapid privatisation policies in 1989/90 in a rather low profile, secret manner. Only in 1991 did the IMF introduce a conditionality on privatisation into the current adjustment programme, demanding privatisation of 50% of all state-enterprises within the following three years (EIU, 2/1991).
- The extent of devaluation of the Zloty and the balance of trade and payments.
- Cuts in subsidies and the size of the budget deficit.

By analysing the imposition of the Western aid regime's values into the government policy, the extent of Poland's dependence can be shown. Since 1989, the Polish government has pushed a most rapid and courageous package of transformation policies through the decision making process. The Polish legislative institutions, Sejm and Senat, passed dozens of laws in the shortest possible time, thus making the transformation possible. The laws addressed the following points:⁴⁹

- The almost complete elimination of price controls.⁵⁰
- The unification of the manifold exchange rates together with the devaluation of the Zloty and the creation of a fixed exchange rate with the US Dollar.

⁴⁸ Information from a discussion with Professor Tadeusz Kowalik, March 1990.

⁴⁹ All points can be found in the "Letter of Intent", a document sent by the Polish government in December 1989 to the IMF. Henceforth "LI, 1989".

⁵⁰ With the exception of rents, municipal services, coal (prices going up 400% for industrial and 500% for private users), and electricity (+300%). These prices have been liberalised in successive stages as of July 1990.

- The freezing of wages, the so-called 'nominal wage policy' (January 30%, February to April 20%, from May 60% indexation; a reduction of about 20% in purchasing power was to be expected *ex ante*).
- The obligation to attain state-budget equilibrium if not surplus (!), together with a new law that excludes the refinancing of budget deficits through cheap loans from the Central Bank.
- A tight credit squeeze and the introduction of interest rates exceeding the rate of inflation as of January 1st, 1990.
- The lifting of quantitative import and export restrictions by amending the foreign trade law.
- The simplification of bankruptcy procedures.
- The amending of labour legislation in order to facilitate "adjustment in employment".⁵¹
- Selling off state-owned assets by way of public offers and auction.

The only policy area that did not get a legal framework before July 1990 was the area of privatisation, since a compromise was only found with difficulty within the Polish political elite.⁵² However, despite internal discontent, the government has – according to the aid regime – launched a new privatisation initiative with the aim of rapid privatisation of the 400 top industrial concerns by the end of 1991. The ultimate goal was the privatisation of 50–80% of state firms within three years.⁵³ In order to demonstrate its power, the IMF announced in September 1991, one month before the parliamentary elections, that it would suspend the payment of a credit tranche, since the pace of change seemed not to be satisfactory (*Der Standard*, 28/29.9.1991). It can be therefore argued that the IMF enforces certain policies and thereby interferes in the balance of power between various political interest groups within the dependent state.

This is especially important as it is the aid regime's policy to restore the external performance of the ECE (esp. Poland and Bulgaria). In contrast,

⁵¹ A euphemism for the 400,000 unemployed that were expected within one year. In 1991, a new mechanism was introduced, giving tax-benefits to those enterprises that fire work force (PCR, 3/1991).

⁵² Nevertheless, the "Letter of Intent" promised "to complete the legislative work and set up the organizational frame-work for a far-reaching transformation of the ownership of enterprises ..." (LI, 1989, pp. 19-20).

⁵³ The plan was based on the 'voucher' scheme. It envisages a prime role for Western investment managers steering the ca. 20 new unit trust funds which will be given the role of an entrepreneur. The plan was designed by merchant bankers, S G Warburg, and funded by the British government (EIU, 3/1991). The plan passed the parliament with a few minor changes in May 1993.

the political elite and socio-economic interest groups like trade unions, farmers' representations, have tried to guarantee socio-economic development, i.e. to bargain for the very best external (lowest possible debt repayment and best possible trade-arrangement) and internal (cushioning of social, political and economic costs) conditioning of adjustment and transformation.

This conflict is also reflected in the different programmatical position on the transformation policies. Whereas the aid-regime adhered to a more *neo-liberal* vision of transformation policies (shock-therapy), and was supported in this by some parts of the governmental elites, the majority of interest-groups and political parties supported a more socio-gradual view. – best visible in the October 1991 parliamentary elections, where most winning parties in fact won because they refused the Balcerowicz programme and presented more socio-gradual alternatives.

However, in spite of the physical size of *socio-gradually oriented* political and technocratic interest groups, such groups have played a very weak role in negotiations over the demands of the international community (Stadler, 1993). Their argument was that in order to achieve debt repayment and a reasonably acceptable trade deficit, the priority needs to be accelerated internal economic growth rather than a recession. This would clearly imply other policies than those envisaged by the IMF and the Balcerowicz-team,⁵⁴ above all anti-recessionary measures. Even if this rationale for economic transformation policy were more efficient in terms of socio-economic development and internal political cohesion and thus more successful in solving external problems, it would find little support from Western actors. The reason can be found in the negotiations between the international environment, the government and socio-economic interest groups, where the latter have the least influence. Socio-gradual groups have not only been politically discouraged by the dominance of neo-liberal thinking in the aid-regime, they have also been limiting themselves by anticipating the demands of the international environment. Additionally, the technocratic elite around the government used the pressure of the West frequently as a political argument in order to legitimise the Balcerowicz programme. The overwhelming power of the aid regime, a technocratic governmental elite with fragile links to its societal basis, a discredited

⁵⁴ This was the argumentation more or less put forward by all political groups described as 'socio-liberal'. See e.g. Laski, Karzimirz (*Zycie Gospodarcze*, 18.2.1990), who maintained that reducing investments and budget deficit would be enough to curtail inflation in Poland. Also Sadowski, Wladislaw, "Suppressing hyperinflation rather than production", *Zycie Gospodarcze*, 25.2.1990. Egon Matzner (et al.) developed the socio-gradual approach in the book *The Market Shock*.

opposition, the lack of nation-wide, homogenous, interest mediators, and a hasty decision making process were all factors that led to the application of a reform programme whose results after three years can be seen to be overwhelmingly negative.

Results of the IMF-Programme in Poland

- (1) The social costs exceeded by far every necessity:⁵⁵ the drop in purchase power was estimated for 1990 to be approx. 30% and for the first half of 1991 approx 15% (PCR, 3/1991, p. 13; see Table 3). Unemployment rose by the end of 1991 to more than 2 million (cf. also UN-ECE, 1992).
- (2) Rather than running a negative trade balance and finally increasing imports for modernisation, Poland ran a unnecessarily high trade surplus in 1990 (see Table 2 and Nuti, 1991) and in 1992.
- (3) Poland had to cope with the deepest production recession in its history, which endangered the stabilisation (Table 3, cf. UN-ECE, 1992).

It is not possible to attribute these clearly negative developments solely to the aid regime. Clearly, one can only guess what would have happened if its prescriptions had not affected policy making. Still, the critical record of three years post-communist East-West relations in the Polish case suggests to rethink the role of the West and its political institutions. East European governments depend on Western involvement in pursuing the goal of development, but this dependence has its negative aspects and costs.

2. The Bulgarian Transition and Specific Environmental Problems

What took a few weeks in other countries – i.e. the elimination of the Communists from the government – took nearly two years in Bulgaria. After the ousting of Todor Zivkov on 10 November 1989, political pluralism was introduced, resulting in a coalition government in December 1990. Changes occurred rather slowly, with the (ex-)Communists acting as a brake. As late as October 1991 the second free elections left the majority in hands of the Union of Democratic Forces, backed up by external support from the (mainly Turkish) Movement for Rights and Freedoms.

⁵⁵ D.M. Nuti at a World Bank seminar in Warsaw, 12.3.1990. His appraisal was that the stabilization programme is “overshooting in terms of income reduction” since there is a 36% reduction of real wages“ (in the meanwhile, real wages have further decreased). Nuti even talked about a “underconsumption crisis” and about the need for a “trade off between inflation and unemployment” in form of some “neo-Keynesian policies”.

Since the UDF government became responsible for the creation of a new legal framework, the process of change has been speeded up. In fulfilment of one of the conditions set by the IMF and the WB a Credit and Banking Law passed through the Bulgarian parliament on 28 February 1992.

Internal Changes

As in Western countries, there were serious conflicts of interest between environmental goals and trade unions in Bulgaria. In March 1992, the biggest strike-wave since the establishment of a non-Communist government hit the country. Certain industries, especially of the highly polluting kind, had been designated to be closed (metallurgical and heavy industry). 20,000 of 50,000 miners under the lead of the trade union Podkrepa protested against low salaries and the danger of becoming unemployed (*Le Monde*, 30 March 1992). Environmentalists were simply seen as the 'Evil One' in a country where at the moment 70% of the population live below the poverty level (*Deutsches Allgemeines Sonntagsblatt*, 27 March 1992) and unemployment rates are likely to rise by up to 25% in 1992 (EIU 1991a, p. 34).

To shed some light on Bulgaria's relation with Western governments and institutions, some examples are given in which the environment plays a key role.

Firstly, the REC in Budapest has so far approved a few projects which were submitted by non-governmental or academic organisations. The setting up of a water quality network called Infodanube, the making of documentary films on environmental topics and the elaboration of a strategy for the use of pesticides were all things that were carried out with financing of the REC. Other projects were rejected because of their exclusively scientific or commercial orientation. However, the wide range of projects and the fact that both domestic applicants and foreign evaluators were involved suggest that money is spent where it is really needed: for concrete and sustainable results. The decision was in each case a shared one, which shows that in these cases there is no asymmetrical dependence on the donor.

Secondly, as an example of bi-lateral (environmental) relations, the text of an "agreement on collaboration in environmental protection" between Germany and Bulgaria seems to reproduce a mutual assessment of areas concerned. Nevertheless, the concrete provisions are rather scarce (Abkommen, 1989). However, further exchange of expertise between the specialists in charge will be a step in the right direction of producing made-to-measure solutions.

Unfortunately, Bulgarian reality has shown to be the opposite: as a result of the austerity policy, introduced after the 1991 elections, one of the few

expert units, the 'Centre for Environmental Monitoring', was recently closed down.

Bargaining Positions around the Kozloduj Nuclear Power Plant

As one fairly well documented example of environmental relations and the diverging bargaining positions the case of nuclear energy will be briefly described, focussing on the Kozloduj Nuclear Power Plant. The interests regarding the continuation and the closure of the plant are rather intertwined, and are not simply separated by the former iron curtain. That is, depending on the issue, strange coalitions surge, which impede an objective assessment of the case (see also Stein 1991). Indeed, these intersecting interests show how complicated the situation is.

1. In a national framework FOR a continuation of nuclear energy production:
 - Domestic substitute energy production (mostly lignite) would still worsen existing pollution.
 - 40% of an already scarce energy supply cannot be replaced; considerable electricity cuts might cause social unrest.
 - Foreign substitute energy production (recently also from Eastern Europe) is available only with unavailable hard currency.
 - Even if newly discovered gas and oil fields in the Black Sea can be exploited, Bulgaria would rather sell them to the world market for hard currency (in order to assure debt repayment and to pay for indispensable imports).
 - Nuclear danger for all of Europe is the first valuable pawn Bulgaria ever had. As long as this danger exists, Bulgaria's bargaining position is reinforced, and Western support more likely to follow.
2. In a national framework AGAINST a continuation of nuclear energy production:
 - Environmentalists absolutely reject nuclear energy.
 - Desperately poor security levels and high danger of accidents.
 - Russian experts who ran the plant left; domestic specialists change to better paid positions in private industry.
 - International standing jeopardised in the case of an accident.
 - Loss of funding through emergency spending and damage could undermine progressive democracy; danger of authoritarian regime.

3. In an international framework AGAINST a continuation of nuclear energy production:

- Western environmentalists fear improvements could serve as a new legitimization of nuclear energy in general.
- Neighbouring countries pressure safety of their populations (but often do not consider their own nuclear plants).
- Western nuclear lobby (e.g. the IAEA) fears a second "greatest conceivable accident", which would rule out any further public acceptance of nuclear energy in Europe.

4. In an international framework FOR a continuation of nuclear energy production (on the condition that improvements are made):

- Western nuclear industry, which hopes for a new market (with Western markets declining).
- Interest by Siemens in the modification work (and consequently in the aid paid by the EC which amounted to 11mn ecus in 1991).
- Germany offered to sell parts of the shut-down Greifenwald reactor in East Germany for the modification of Kozloduj.

Any harmonisation of these diverging goals and interests seems unlikely in the near future. On a national level, a similar weighing of disparate interests can be found in most areas where environmental protection is at stake. As to East-West relations, the conflict of goals in the case of the nuclear debate is more pressing, since the West is more directly involved. However, the effects on East-West relations might be temporarily and more open to variation since the nuclear danger influences the West in a more direct way.

As a conclusion, several conditions can be formulated that have to be met in order to improve environmental protection in Bulgaria (see also Stanchev, 1992):

- state institutions have to be persuaded to adapt environmental laws and standards to West European level;
- international institutions should include the environmental issue in their economic and financial reconstruction programmes;
- appropriate technology has to be transferred for environmental improvements;
- Eastern Europe has to be included in a Pan-European environmental protection network and all its constituent institutions;

- environmental NGOs, education and training programmes have to be supported.

Given that Bulgaria is not in a position to establish these goals on her own and that it is totally dependent on the foreign aid programmes, that do not regard the environmental problem as a priority, there seems to be little hope that any effective environmental reconstruction will be undertaken in this country in the near future.

V. Conclusion and Some Ideas for Policy Implications

The political, economic and ecological transformation of ECE has proved more difficult and complex than either the West or the new democratic elites expected. The West has a huge shaping power in the transition of the ECE countries, which find themselves in a new relationship somewhere between the two extremes which we initially conceptualised in terms of integration and dependence. Even if we cannot conclusively summarise (further research is needed) the theoretical frame-work of 'integration', 'dependence' and the theoretical umbrella of 'ecology', we have shed some light on the new state of East-West relations:

1. The Western aid regime provides considerable financial, technical, legal and political support for economic reconstruction and the integration of ECE. However, the relative neglect of social and ecological factors and the deep recessions hint at growing rather than diminishing dependence.
2. Despite some development of common inclusive political structures the major questions of economic policy in East-West relations are still handled through structures where the West can easily have a dominating role and the ECE countries are deemed to be policy takers. A similar situation prevails in the security sector, where there may have been some progress towards integrating ECE into security structures, but where NATO still remains a Western club.
3. Common visions and values were developed very quickly in broad general terms, as regards the establishment of democracy and a market economy; less quickly in questions of environmental awareness; in specific policy areas, however (EBRD's lending to private sector, neo-liberalism versus socio-gradualism), ECE dependence is only too apparent.

4. The end of the Cold war has multiplied transnational non-governmental links. However, governmental links between East and West still play a major role (due amongst other things to the wide Western governmental involvement in restructuring Eastern Europe) and there is still no free exchange for ECE, particularly in the labour sector.

The following conclusions can be formulated with respect to (a) domestic, (b) foreign, and (c) environmental policies.

(a) Socio-political stability and cohesion is very low in ECE countries, but these are exactly the qualities that are necessary in a situation of difficult adjustment and transformation. The legitimacy of the new political elites is not firmly established but conditional on an improvement in the socio-economic situation. Radical transformation policies enforced by the aid regime may further aggravate the social and economic crisis – because of the inadequacy of the policies themselves, because of political opposition to those programmes and because of the high social costs. Western support should therefore take more account of domestic political and programmatic forces.

(b) External policies should focus more on ECE-regional integration. Similarly, and in view of the fact that the majority of ECE countries have similar external problems, they could formulate common policies to increase their power in the aid regime negotiations. The main demand should be stronger non-reciprocity in trade liberalisation for a longer period than envisaged by the Europe Agreements. East European countries could legitimately reduce their debt servicing if market-access is not granted. Other possibilities of facilitating transformation and adjustment are debtor-cartels and the creation of a new East and Central European payments, customs and security union⁵⁶ as a step towards integration into the European Community (proposed also by Walesa in 1992 under the heading “NATO-BIS and EC-BIS”).

(c) As far as the environment is concerned, duplicating the Western environmental policy will bring a lot of short-term improvements for Eastern countries. But it will mean duplicating Western environmental problems too; and despite some successes of advanced environmental technology and policy, the West is far from being an environmental

⁵⁶ These questions were intensively discussed at a Conference at the EUI in January 1992 (Uvalic, Espa, Lorenzen 1993).

paradise. The interest of Western Europe in the East can partly be explained by reference to a sort of transnational NIMBYism (Not-in-my-backyard). Both a specially designed approach for Eastern environmental problems and a generally more cooperative procedure would be a really first-best choice for the future. A specially designed institution, similar to the institutions which have been planned as a follow up to the decisions of the UNCED conference in Rio, with the task of coordinating environmental programmes, would help to harmonise efforts and facilitate the exchange of know-how. The EBRD could take a stronger role, reinforcing its environmental unit, and/or shifting its emphasis from being an investment bank to 'development and environment' tasks. The instrument of debt-for-ecology-swaps discussed above should be seriously taken into consideration as a way of increasing awareness of the environmental crisis and stimulating cleanup and reconstruction measures.

The aspects of dependence discussed in this paper can only be converted into interdependence and integration by strengthening and creating larger European *political* structures where conflict and cooperation can be handled in a fairer and more democratic way. ECE countries, though being still essentially policy-takers, would find it easier to present their problems and have at least some influence on the policies they adopt. Institutionalised and binding political structures could also improve the policy and information process between donors and recipients in restructuring ECE.

EC and EFTA countries should live up to their own rhetoric about European integration with more and more balanced and tailor-made support. It should be possible to think of (1) a clear timetable for political and economic (with intermediary protective measures) integration based on (2) conditionalities that look not only at economics, but also at democratic (e.g. minorities), social (esp. unemployment) and ecological criteria. This could also enhance the links between social, political and environmental groups in the East and West, thereby strengthening the integration – and weakening the dependence character of East-West relations.

VI. Tables

Table 1 Gross Debt and Net Material Product (NMP) Change in Poland 1987-1992

	1988	1989	1990	1991	1992
Debt (US\$m)	39.2	38.9	46.6	49.0	49.5
Real NMP (%)	4.9	-0.2	-15.8	-10.0	-0.5

Source: EIU 1991/2.

Table 2 Debt, Current Account, Recession, Aid Regime's Activities in Poland, Czechoslovakia, Hungary, Bulgaria and Romania in 1990

	Poland	CSFR	Hungary	Bulgaria	Romania
<i>US\$bn</i>					
Gross External Debt	46.6	7.6	20.6	11.0	1.3
Current Acc. Balance	1.4	-0.5	-1.44	-1.1	-1.6
<i>%</i>					
NMP Change (Recession)	-15.8	-3.5	-1.5	-11.0	-10.2
Aid Regime's Position	dominating	consulting	dominating	dominating	dominating

Sources: EIU (1991-93)

Table 3 Results of Economic Reform Programme in Poland since the Reform Start in 1990 (Real changes in per cent compared to preceding year)

	1990	1991	1992
Industrial Production	-24	-12	2
Inflation	586	70.3	43
Real Average Income	-30	-5	-2
Unemployment	6.1	12.2	15

Source: *Neue Zürcher Zeitung*, 29-30.3.1992; *Polityka*, 25.4.1993.

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Community Towards Sustainability?

EPU No. 93/6

Bernd BAUMGARTL/Andreas STADLER

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Implications of the Western Aid Regime for
the Political Economy and Ecology in
Poland and Bulgaria 1989-1992

